SOCIAL PLANNING
COUNCIL
OF
METROPOLITAN
TORONTO

DEMOCRACY EQUALITY
AND CANADA'S
ECONOMIC FUTURE

Brief to the Royal Commission
on the Economic Union
and Development Prospects
for Canada

A participant in
the United Way

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Brief to the Royal Commission on the Economic Union and Development Prospects for Canada

INTRODUCTION:

Canada has undergone and will continue to undergo enormous changes in the structure of its economy. These changes are leaving Canada weak with a number of apparently intractable problems: unemployment, productivity declines, decreasing social spending, and increasing poverty and inequality. The most disturbing aspect of these patterns is the sense in which they are treated as inevitable. Unemployment is recognized as a problem, but inflation is seen as a greater problem undermining business confidence leading to more unemployment. There are unmet social needs but government spending and the size of the national debt precludes more spending since this would apparently reduce investment thus eroding the wealth creating capacity needed for precisely these purposes. Improved standards of living are desirable but wages have to be restrained because increasing international competition is pricing Canadian goods out of the market and creating more unemployment.

The public policy response to these dilemmas is to stimulate economic growth by restoring business confidence. The theory is that if private savings and profits are increased then new investments will be made in productive industry and this will increase our wealth, our employment and therefore our ability to redistribute

income. In order to become more efficient we have to become less equitable because if we don't become more efficient we will of necessity become less equitable. The logic is compelling and the theories are elegant, but the Social Planning Council of Metropolitan Toronto remains unconvinced of both the desirability of this direction and the validity of this framework for understanding our economic problems.

There is certainly a need for economic recovery. We require effective investments in new industries, recapitalization of old industries, efficient management, and the careful use of our collective resources. But we also require adequate employment opportunities for everyone, a reduction of work time for pay in order to engage in other productive activities, the alleviation of poverty, greater equality, improved community, social, educational and health services, protection against discrimination, less pollution and more democracy in government and in workplaces. Promises for recovery and economic growth through a greater reliance on market forces are not promises for an improvement in the quality of life. Nor are they credible even at face value. A significant erosion of social programs since 1975 and generous tax policies to increase profits and investment have not restored growth and efficiency. And they are not likely to because they do not propose to deal with the structural weaknesses of the Canadian economy, the irrational nature of private sector decision making, and the need for a flexible and secure workforce.

It is possible to reconcile economic efficiency and equity but this will require fundamentally different economic and social policies in the future. It will also require relying less on the market and more on democratic structures of decision making.

JOBS AND INCOME:

Unemployment in Canada is unacceptably high. Economic projections see unemployment remaining above 11 per cent for the rest of the decade. Compared to other O.E.C.D. countries Canada has one of the worst records of unemployment. Unemployment is wasteful and unnecessary. It creates poverty and increases inequality and puts greater pressure on government to provide income security precisely at a time when it is difficult to finance it. Full employment is an essential precondition to the development of adequate social spending and it is the means by which we can collectively reduce our worktime requirements.

THE ECONOMY- CHANGE AND ADJUSTMENT:

The problem of high unemployment has been incorrectly analysed as related to problems with labour supply or the labour force. This has taken attention away from the problems of deficiencies in demand and structural weaknesses of the Canadian economy These problems are serious. Canada has suffered a deep recession since 1981. But the decline in economic performance started much earlier than 1981. Canada has dropped from third to twelfth between 1970-1979 in the O.E.C.D. in the ranking of countries by per capita output.

Canada has always had a weak manufacturing base and this has made us particularly vulnerable during periods of world recession when the prices of staple products are subject to considerable fluctuation. The weakness in manufacturing is compounded by the high levels of foreign ownership in Canada which, while it has

benefits in periods of growth, creates problems in periods of decline. But the most pressing problem is declining productivity. Canada had an absolute decline in its level of productivity between 1973 and 1980 while all other major O.E.C.D. countries had increases.

Efforts to explain productivity declines in Canada have not been entirely successful. Conventional models employed to analyse productivity changes have ignored the social factors that contribute to conflicts between labour and capital. They have also ignored the poor quality of investments and the tendency for the private sector to use capital to make short-term profits in largely speculative ventures. Evidence from the U.S. suggests these are important factors explaining productivity decline and evidence from Canada suggests they are also relevant factors here.

Industrial restructuring is inevitable and can be desirable, but evidence of industrial restructuring in Canada suggests that the economy of the future will create more unemployment, and more inequality, thus making it more difficult to improve the quality of life of all Canadians.

New technology in traditional industry will displace up to 50 per cent of industrial workers. New opportunities in high-technology industries will not offset the loss of jobs in traditional sectors. Moreover the jobs in these sectors and in the growing service sectors are likely to be low wage, poor quality jobs thus jeopardizing the very existence of middle-income occupations.

The need for industrial restructuring blinds us to the fact that the mobility of capital, plant closures and layoffs are both extremely traumatic to workers and communities, and are often the

result of irrational and irresponsible corporate behaviour. Profitable plants are closing and the private sector often engages in speculative non-productive investments in order to maximize the short-run return on investments. Capital mobility on a world scale is enhanced by the revolution in communication and transport technology. A new international division of labour is emerging that will cost Canadian workers jobs and may not serve to develop third world economies. The doctrine of private sector efficiency at least has to be regarded with some skepticism. Increasing profits in the private sector will not necessarily result in rational investment and sound economic growth.

EQUITY AND EFFICIENCY:

The post World War II period saw a substantial improvement in social policies in Canada. The growth in social security, health, education and social services was seen as an essential factor in creating the conditions for economic growth. By 1975 this formula was abandoned, government spending and the government debt was increasingly viewed as the cause of our economic problems. A systematic erosion of social spending has occurred since 1975 in an effort to restore economic growth. Opposition to social spending on the grounds of excessive public debt and excessive taxation is fallacious. The real cause of the public debt prior to 1981 was revenue restraint which was the result of growing tax expenditures to corporations and mostly high income individuals. The tax burden in Canada is not large when compared to other O.E.C.D. countries nor is there any grounds for arguing that social spending leads to productivity declines.

Opposition to social spending often comes from those who believe that it has redistributed too much income and therefore that it has undermined work incentives and investment potential. Calls are made for a return to the market in order to discipline our economy into efficiency. The fact is that social policy has not led to a significant reduction in income inequalities in Canada. Nor was the welfare state in Canada ever dominated by the commitment to universalism and social solidarity where it is assumed that individuals are mutually dependent upon and mutually responsible for each other. The erosion of social spending reinforces the belief that each individual is responsible for her/his own happiness and welfare through self-initiative in the market place. It also undermines commitment to social policy since without universal access and high quality services there is unlikely to be widespread political support for state spending.

The progressive erosion of social policy in Canada leaves us unprepared to deal with emerging needs. Continued high rates of unemployment, increasing inequality in the wage structure, and industrial restructuring through capital mobility will put greater pressure on governments to provide income security. A reduction in income security will make it more likely that workers will resist the industrial restructuring that is necessary to improve our productivity. Forcing people to rely more on the market will generate increased social tensions and will inhibit the improvements in productivity that are needed.

Economic efficiency can be reconciled with economic and social equity. This does not necessarily require increasing profit levels in the private sector or augmenting the private savings of high income individuals. It requires that in Canada we consume less than

we produce, that we convert our savings into investments in productive activity, and that we manage those investments efficiently and rationally. Nor is economic growth essential or necessarily desirable (although economic efficiency is). We may as a society chose to reduce our work-time, reduce pollution, or make other improvements to the quality of community life that are not necessarily the outcome of an increase in Gross National Product. Making these choices will require mechanisms to increase participation in decision making at all levels of society.

GOVERNMENT INSTITUTIONS:

Following from our analysis of the problems and prospects for Canada's economic future, there is a need for government to take on new roles vis-a-vis social and economic policy making. These new roles should be guided by four principles: 1) the need for greater democracy in government and all institutions of society including productive enterprises; 2) the need for greater equality in the distribution of income, wealth and job opportunities in Canada; 3) the need for greater efficiency in productive enterprises and economic decision-making with our collective capital resources; 4) the need for a commitment to social solidarity or the idea that mutual support rather than competition within the market will guide our future social and economic development.

Less reliance on the market and more on public provision may be unpopular now but the reasons do not rest in an inherent objection to the concept and benefits of public provision. Opposition to government in our lives is often opposition to a bureaucratic and inflexible state that is unresponsive to individual and community

interests. The alternative is to democratize institutions of government and to allow the people most affected by policies to have a say in their development.

The appropriate role of government in social policy is not in the pursuit of a debilitating form of welfarism. The first social policy priority is full employment. Social policies will increasingly have to focus on mechanisms to distribute and re-distribute the products of technological improvements, to achieve wage equity, and to improve the quality of community life.

The role of government in the economy should be in the encouragement of the equity - efficiency reconciliation by creating the mechanisms necessary for the accumulation of adequate savings and the encouragement of improved mechanisms for democratic investment decision-making.

Communities and workers require a much greater role in the management of their economic lives. Shop-floor participation is essential to improve our productivity performance, and municipal and community decision-making structures should be involved in an instrumental way in local investment decision-making.

I) INTRODUCTION:

The past decade has brought enormous changes to Canada and to the world economy. Canada can no longer rest secure in its economic strength in the world and in its ability to distribute an ever expanding social product. Structural changes in the international division of production, changes in the technology of production within industries, and changes in the world pattern of demand for goods and services have left Canada economically weakened and with a number of apparently intractable problems. The foremost of these problems is persistent and growing unemployment. But there are other problems that are clearly related: declining standards of living; increasing poverty and inequality; environmental and workplace hazards;and an erosion of confidence in democratic institutions and collective provision. Perhaps the most disturbing aspect of these patterns of change is the sense in which they are treated as inevitable.

Unemployment is acknowledged as a problem but inflation is viewed as a greater evil undermining business confidence. If business confidence is lost, employment will erode further because investments will not be made. Unmet social needs are recognized but government spending and the government debt is seen as a major impediment to economic recovery and growth. Improved standards of living are considered desirable but efforts are made to restrain wages because international competition is pricing Canadian made goods out of the market. The apparent conclusion is that there is little that can be done - we are in a zero-sum situation.

The logic of the analysis is compelling, but the reality is quite different from the economic models used to explain it. There is no doubt that Canada faces very serious economic difficulties. And there certainly is a need for economic recovery. The very serious problem of productivity in this country is a major barrier to recovery. Unquestionably we require effective investments in new industries, recapitalization of old industries, and careful use of our collective resources. But it is not clear that Canada has chosen the best set of policies to deal with these difficulties. Nor does the emerging economic framework prepare us well for the future.

This framework assumes that the private sector must be the engine of economic growth and recovery. We will have to rely more on the market for the allocation and distribution of income and investment and less on government for social entitlements. The level of social spending we have become accustomed to is beyond our means; new initiatives are clearly not possible. Inflation is the primary economic evil, the product of excessive expectations on the part of an increasing proportion of Canadians.

This economic framework sets social development and redistributive goals against economic development, low unemployment against low inflation, and improved wages for Canadian workers against improved trade balances. These dilemmas have never been effectively resolved in the tradition of classical economics. They are the apparently inevitable choices in market economics between the goal of equity and the goal of efficiency. In Canada the choice has been effectively made against more equity in the interest of more efficiency. The goal of full employment has been abandoned. We are expected to endure high levels of unemployment for at least the next decade and perhaps permanently. Social development expenditures by all levels of government have been systematically eroded.

Increasingly business and government are unsympathetic to the plight of the poor and unemployed in an effort to restructure the economy for recovery. There is a real danger of a future society where large numbers of people will be marginal to the economy as the commitment to public provision for their welfare declines. Technological change and industrial restructuring are occurring at such a pace and in such a manner that the interests of the workers and the communities involved are ignored. Nor is there in place a labour market policy that would cushion this adjustment process and allow those most affected by change to have some input into the decision-making that so overwhelmingly affects their future.

The shift of resources from the public to the private sector, from consumers to investors, from labour to capital, has not led to significant investment in new productive enterprises or economic recovery. Moreover, problems of high unemployment, coupled with the erosion of public spending, has exacerbated our economic problems because it has removed from the economy important sources of consumer income. Nor is it clear that private sector behaviour and the market operate in a manner consistent with the neo-classical ideas of how they should. The truth of the matter is that tough monetary policies, government cutbacks and increased incentives for private accumulation have not and will not work to achieve economic recovery. Further cuts in social programs and real wages only reinforce the cycle of decline. Social spending cutbacks, the wastefulness of unemployment, an increased reliance on private sector investment decision-making are all inextricably linked to our worsening economic situation. The final result of these policies is the longest and deepest recession since the 1930's.

The framework offered to us for economic recovery and growth is unacceptable. It is unacceptable not only because it tolerates

the wastefulness of mass unemployment and social injustice; it is unacceptable because it offers no reliable strategy for economic recovery while guaranteeing increased poverty and inequality. It is irrational economics designed in the interests of the rich and the powerful and imposed upon Canadians without adequate debate or consensus.

This brief presents the views of the Social Planning Council of Metropolitan Toronto on the problems and prospects for the Canadian economy. This Council believes that it can play a positive role in working to ensure that commitments to economic renewal be made within the context of commitments to social equity and social development. We argue against the inevitability of economic decline and suggest that notions of economic advancement need to be re-conceptualized to include the qualitative concerns of workers and their communities. Full employment and social equity can be reconciled with economic growth but this will require a fundamentally different social and economic framework for decision-making in this country. We assert the need for economic democracy at every level of society from the highest levels of government to the shop floor in every productive enterprise. The alternative, we fear, is a society where nominal economic growth returns but where the fruits of this growth are retained by smaller more isolated and priviledged groupings than ever before.

II JOBS AND INCOME:

a) Unemployment

Unemployment in Canada is higher now than anytime in the post World War II period. But the problem of unemployment is not simply related to the recession we have experienced since 1981. The rate of unemployment for the decade between 1970-1980 averaged 6.8%. Unemployment has been low in Canada for only a few short periods in the past sixty years; in the late 1920's, throughout the 1940's and for a very brief period in the mid 1960's. The proportion of the Canadian labour force unable to find work has steadily risen since the mid sixties. (Figure 1)

Canadian workers are at considerably greater risk of joblessness than their counterparts in other OECD countries. In 1982 Canada had an average rate of unemployment of 11.0 per cent, while the average of the major OECD countries was 7.1 per cent. In a twenty four country comparison of all OECD member nations, Canada ranked 20th in its rate of unemployment for 1982. (Table 1)

In the mid 1950's Canada was on par with Western European OECD countries. For most of the subsequent period European countries performed much better than Canada. (Figure 2) There are two striking conclusions to be made as a result of these comparisons. The first is that many countries similar to Canada in economic structure have had rates of unemployment, even during the current recession, far below the rate of unemployment for Canada for at least the past decade. Secondly, Canada has been one of the worst performers in maintaining a low rate of unemployment of all OECD member countries.

Figure 1

Unemployment in Canada, Annual Average
1921 - 1981

Source: Statistics Canada, Labour Force Survey Group.

Table 1

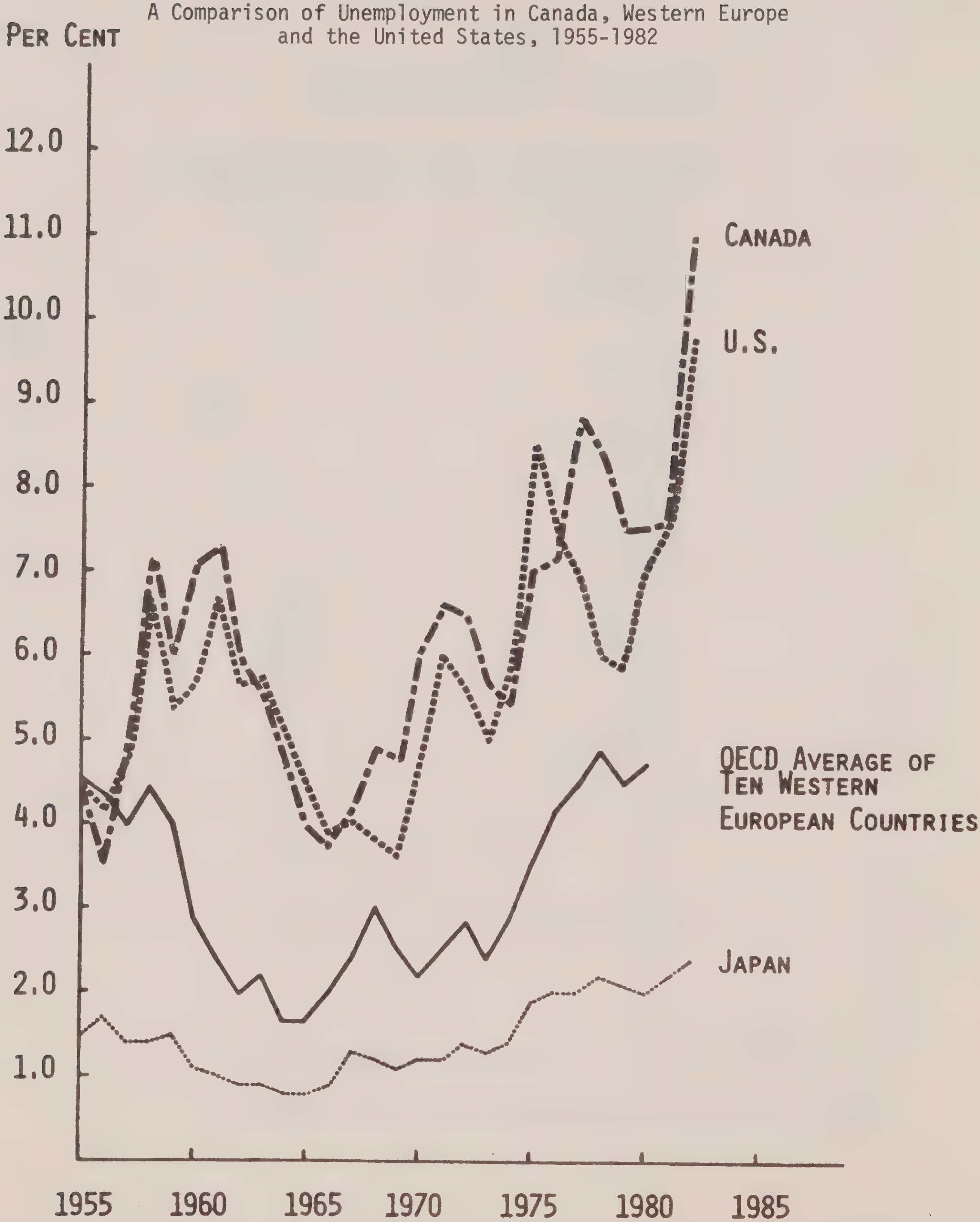
Unemployment in OECD Countries 1982

Rank	Country	Unemployment Rate
1	Switzerland	0.4
2	Iceland	0.7
3	Luxembourg	1.2
4	Japan	2.4
5	Norway	2.5
6	Sweden	3.1
7	Austria	3.5
8	New Zealand	5.3
9	Greece	5.8
10	Finland	6.2
11	Germany	6.8
12	Australia	7.1
13	Portugal	8.0
14	France	8.0
15	Italy	9.1
16	United States	9.7
17	Denmark	9.7
18	Netherlands	10.0
19	Ireland	10.7
20	CANADA	11.0
21	United Kingdom	11.2
22	Belgium	13.1
23	Turkey	14.4
24	Spain	15.9

Source: OECD Economic Outlook 33, Paris, July 1983, P.45.

Figure 2

A Comparison of Unemployment in Canada, Western Europe
and the United States, 1955-1982



Source: OECD, Labour Force Statistics (International Labour Office: Geneva) Adopted from data compiled by Richard Deaton, Assistant Director of Research, CUPE.

Even these figures, striking as they are, do not tell the complete tale of unemployment. There are large numbers of unemployed left out of the official figures. For example, not included are the 427,000 people who, in the March 1983 survey of the labour force, reported that they were not in the labour force but wanted work and were available for work.[1] Nor do they include the over 400,000 people who are working part-time but want full-time work. Adding these two groups onto the current official estimate of 1.4 million means that in excess of 2 million people are unemployed and wanting work.

There is also evidence that this hidden unemployment effect has grown more serious over the past several years as the official rate goes up. Using a formula for measuring "real unemployment" developed by the U.S. Bureau of Labour Statistics Richard Deaton has found that the differential between the official rate and the real rate, which includes discouraged workers and half of the involuntary part-time workers, was 1.4 per cent in 1976 when the official unemployment rate was 7.1 per cent while in 1982 it was 15.5 per cent when the official unemployment rate was 11.0 per cent.[2] Unemployment is even more serious than we think!

Moreover, the experience of unemployment is not evenly distributed across all population groups. Unemployment is much more heavily concentrated among young people. The official youth unemployment rate for the year ending in August 1983, was 20.6 per cent while a measure of discouragement and underemployment for that age group requires that we acknowledge at least a 30 per cent un-

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1 Statistics Canada, The Labour Force, Cat. 71-001, March 1983.

2 Richard Deaton, "Unemployment: Canada's Malignant Social Pathology", Perception, Spring Summer 1983, pp. 14-19 p. 18.

employment rate for young people in Canada.[3] In this age group the concentration of unemployment is among those who have little education. In 1982 the rate of unemployment for Canadians aged 15 to 24 with less than grade 9 education averaged 31.9 per cent on an official basis compared to 10.3 per cent for those with a university degree.[4] Similarly workers in the "blue collar" occupations have much higher rates of unemployment than those in other occupations as the loss of employment has been concentrated in the manufacturing and primary resource sectors. The rate of unemployment for workers in materials handling, machinery, the construction trades, mining and quarrying, and forestry and logging were all in excess of 20 per cent on average throughout 1982.[5] Thus unemployment is not just a problem of magnitude but it is also a problem of distribution. Certain groups are having to bear a much greater burden in their continuous inability to find work, their loss of income, the deterioration of their human capital, and their loss of status and self-esteem.

b) The Social and Economic Effects of Unemployment

Our central objection to high unemployment is that it has devastating social consequences. We have been dismayed that the high levels of unemployment of the 1970's were frequently dismissed as not serious because of the extensiveness of existing social supports and because it was concentrated among young people and women. It is difficult to deny the seriousness of unemployment now when levels of joblessness remain above 11 per cent but as late as 1981 the federal

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3 See, Social Planning Council of Metropolitan Toronto, "Unemployment in Toronto, Hidden and Real", Working Papers for Full Employment #I, 1980.

4 Statistics Canada, The Labour Force, Cat. 71-001, December 1982.

5 ibid, p. 78, Table 41

Task Force on Labour Market Development argued that:

> "the perceived costs associated with historically high rates of unemployment, although they continue to be real and substantial in terms of foregone output, have tended in other aspects, to decline in recent years. In particular, it is clear that hardship associated with unemployment is today much less than it was even 15 years ago."[6]

This perspective, which we believe underlies the erosion of the commitment to maintaining full employment, flies in the face of all the evidence that exists on the social impact of unemployment. Unemployment is an intensely frustrating experience even if a person has unemployment insurance. A recent poll in Quebec reveals that most people regard the social costs of unemployment as more serious than direct financial hardship that comes from being unemployed.[7]

The pioneering work by Dr. Harvey Brenner of John Hopkins University has shown a consistent statistical relationship between rising unemployment and rising stress indicators in both the U.S. and several European countries.[8] Brenner's work shows that for every given rise in the unemployment rate we can expect a corresponding rise in the number of recorded suicides, mental hospital admissions, prison admissions, murders, incidences of cardiovascular disease

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6 Employment and Immigration, Labour Market Development in the 1980's, Ottawa, 1981, p.15.

7 Diane Bellemarre and Lise Poulin-Simon, Le Plein Emploi: Pourquoi? Presses de L'Universite du Quebec, Montreal, 1982.

8 H. Brenner, "Estimating the Social Costs of National Economic Policy and Implications for Mental Health and Criminal Aggression", in Full Employment: Social Questions for Public Policy, Social Planning Council of Metropolitan Toronto, 1979.

and cirrhosis of the liver. We believe that similar results would be obtained if Dr. Brenner's model were applied here in Canada. This information is extremely important because it should allow public policy makers to clearly understand that the choices they make in tolerating increases in unemployment will have direct consequences in human terms. Moreover these consequences are not relegated simply to the individual. Society has to pick up the extra costs of institutionalization, social services, the criminal justice system and other responses that are not immediately identified as stemming from unemployment.

Brenner's research can be supplemented by a large body of research on layoffs, plant closures, and unemployment. We have reviewed a large part of this literature and can testify to the imposing evidence that unemployment is an extremely serious social problem.[9] Psychiatrists and psychological researchers have found that layoffs and unemployment are an important condition giving rise to increased anxiety, tension, pessimism, anger, depression and insomnia.[10]

Unemployment is a major cause of poverty. Our study, Poverty and the Labour Market, found that 92 per cent of non-poor family unit heads worked a full year while only 44.3 per cent of poor family unit heads worked a full year. The percentage of poor family units that had at least one person in the labour force and some unemployment was double that of non-poor family units with at least one person in the labour force and some

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9 Social Planning Council of Metropolitan Toronto, "The Social Impacts of Layoffs", Working Papers for Full Employment #3, 1980.

10 S. Cobb, S. Karl, Termination: The Consequences of Job Loss, Washington: GPO. U.S. National Institute for Occupational Safety and Health, 1977 and S. Levine, The Social Effects of Youth Unemployment, Mimeo, University of Toronto, 1978.

unemployment. Our study found that length and frequency of unemployment were also factors influencing income. The greater the length of unemployment and the more frequently people experienced joblessness the greater the likelihood they would be poor. Using the Social Planning Council of Metropolitan Toronto's definition of adequacy, we found 24 per cent of all families and unattached individuals in Canada were poor.[11]

There is evidence for Metropolitan Toronto that higher levels of unemployment and slack job markets increase social tension and manifests itself in racial conflict and increases in discriminatory behaviour.[12] We have reports from agencies in the social services of large caseloads and more serious social pathologies. In particular the bleak prospect of job opportunities for young people is increasingly being identified with higher levels of youth prostitution and suicide. No one can predict what the long term consequences of high unemployment will be, but the scars of unemployment will likely be felt by those who experience it for a long time to come.

Aside from the human/social costs of unemployment there are large economic costs. The most immediate economic costs are the lost opportunity to produce and lost incomes.

It also reduces our capacity to achieve other goals that require expenditures of public resources. A high unemployment rate

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11 Social Planning Council of Metropolitan Toronto, "Poverty and the Labour Market", Working Papers for Full Employment #4, p. 25.

12 Ontario Human Rights Commission, Annual Report, 1980/81, p. 13.

translates into high levels of state spending on unemployment insurance and welfare and represents not only a debilitating form of social welfare but also means that less money is available for life enhancing and social development spending such as education, culture, training, recreation and public services.

For example the unemployment insurance program was greatly expanded in the early 1970's as a measure of protection against the risk of unemployment. As unemployment steadily rose throughout the 1970's there was considerable pressure put on the federal government to reduce U.I. eligibility and benefits. The federal government obliged. The consequence is that U.I. coverage is less now than it was before the major 1972 changes were introduced. (Table 2)

Table 2

Weeks of Unemployment Covered by
Unemployment Insurance Canada, 1970 - 1981

Year	(000) Person Weeks of Unemployment	(000) Regular Benefit Weeks Paid	Regular Benefit Weeks Paid as a Percentage of Total Weeks of Unemployment
1970	25,740	19,817	77.0
1971	28.704	22,634	77.8
1972	29,224	N/A	N/A
1973	27,040	N/A	N/A
1974	27,092	25,803	95.2
1975	36,244	34,319	94.7
1976	38,272	32,329	84.5
1977	44,200	34,370	77.8
1978	47,372	36,575	77.2
1979	43,576	31,882	73.2
1980	45,084	31,262	69.3
1981	46,696	31,870	68.2

Source: Statistics Canada, Statistical Report on the Operation of the Unemployment Insurance Act, Cat 73-001, Canadian Statistical Review, Sect 4 (various years)

The inevitable result of this erosion of U.I. protection is that the unemployed who are not eligible for U.I. or who have exhausted their benefits will have only welfare to fall back on. And it is apparent that welfare assistance plays a large and increasing role in supporting the unemployed as the unemployment insurance program is weakened. Welfare caseloads have risen dramatically because of unemployment all across Canada. In Metropolitan Toronto the welfare caseload related to unemployment more than doubled in the period 1981 to 1983. (Figure 3) The data indicate that there is a lag effect of about nine months in rises in unemployment and rises in welfare caseloads.

Moreover the benefits paid to recipients of General Welfare Assistance in Ontario, and therefore to unemployment-related welfare recipients is less than 50 per cent of the Statistics Canada poverty line for most family sizes. This condition has prevailed for at least the last two decades and in Ontario these already inadequate levels have been allowed to deteriorate to the extent that the real purchasing power of a General Welfare recipient has declined by as much as 20 per cent since 1975.[13] The majority of welfare recipients in Canada have suffered in this respect. Newfoundland, New Brunswick, Quebec and Ontario have all kept their welfare benefit increases significantly below the cost of living increase during the period 1974 to 1982.[14] The poor in Canada are getting poorer and unemployment is a major reason why this is occurring. Policies of restraint in income security are rationalized on the basis of the need to stimulate economic growth and reduce unemployment, but the experience has been that unemployment has risen consistently and the safety nets

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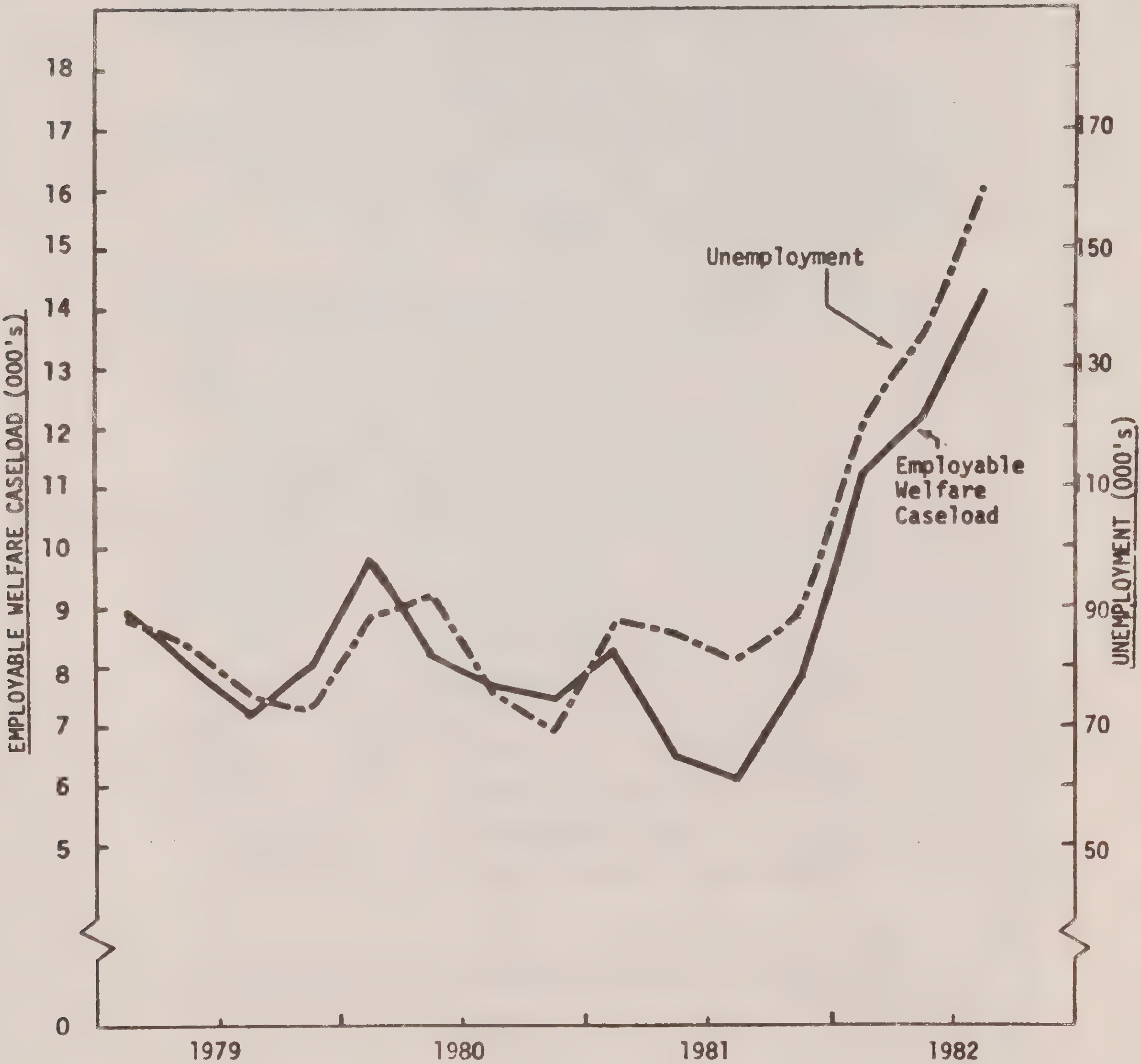
13 Social Planning Council of Metropolitan Toronto, <u>And the Poor Get Poorer</u>, 1983.

14 <u>ibid</u> p. 101.

Figure 3

Comparison of Quarterly Changes in Unemployment and Employable Welfare Cases in Metropolitan Toronto, 1979-1982



Source: Social Planning Council of Metropolitan Toronto

have eroded at the same time. This suggests to us that Canadians are not only having more difficulty finding jobs and therefore income, but when they can't find jobs the income supports that they need are more difficult to find and less adequate than they have been in the past.

c) Implications for the Future

It is our belief that the need for full employment has never been greater. Yet governments in Canada have abandoned any commitments they might have had in the past to keeping unemployment low. Admittedly the concept of full employment has defied precise measurement. In the 1960's the Economic Council of Canada considered three per cent unemployment to be full employment. Even this limited definition was dropped in the mid 1970's as economists started claiming that five or six per cent unemployment was actually the best that the economy could do given the assumed trade-off against inflationary pressures.

Efforts to define away the unemployment problem by redefining the full-employment unemployment level have been elaborate. Throughout the 1970's and right up to 1981 claims were made that high unemployment was related to labour market supply factors such as the increase in youth and female labour force participation, the assumed work disincentive effects of unemployment insurance and structural mismatches in the supply and demand for labour. While the significance of these factors in altering labour market behaviour does have to be acknowledged, we believe that these arguments for public policy commitments to higher levels of unemployment represent not much more than rationalizations for the failures of neoclassical theories to adequately explain simultaneously rising unemployment and inflation. They represent the failure of public

policy to create a sufficient number of jobs for all Canadians needing and wanting one.[15]

The prospects for employment opportunities for the future appear bleak. Despite the projected short recovery this year most analysts see unemployment remaining above 10-11 per cent for at least the rest of the decade. The Conference Board of Canada forecasts a continuation of the same high levels of unemployment into 1988. (Table 3)

Table 3

Unemployment In Canada

1983	12.1
1984	11.0
1985	10.9
1986	11.2
1987	11.1
1988	10.8

Source: Conference Board of Canada Forecasts, 1983.

The Rocky Road to 1990, a paper by the Ministry of State for Economic Development points out that it will take 2 million extra

15 We have commented on these arguments in our review of the Task Force Report on the Labour Market and The Task Force Report on Unemployment Insurance in Social Planning Council of Metropolitan Toronto, A Job For Everyone: A Response to Unemployment Policies in Canada, 1982.

jobs over the next decade to bring unemployment down below an "acceptable" 10 per cent. A document for the Department of Employment and Immigration fully expects a rate of unemployment for young people of 19.4 per cent in 1985.[16]

It is our belief that the goal of full employment is unassailable on both social and economic grounds. It is achievable but it will require a recognition of the real causes of unemployment and a commitment to social and economic policies with jobs and income security as their central objectives. Most of all it will require a different understanding of the nature of our economic problems.

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16 Employment and Immigration, The Canadian Economy and Its Implications for Immigration, June, 1983. Reported in The Globe and Mail, Tuesday, September 13, 1983, p.8.

III THE ECONOMY - CHANGE AND ADJUSTMENT:

a) Economic Decline in Canada

Unemployment is an economic problem. Our ability to achieve full employment is impaired to the extent that our economy is not structured to minimize the impact of adverse international conditions and to the extent that domestic economic policy does not address internal weaknesses. Canada suffered a particularly severe economic decline in the recession that effectively bottomed out the last quarter of 1982. In 1982 G.N.P. declined 4.8 per cent, the first annual decline since 1954. This decline was unusually sharp compared to the experience of other major OECD countries in the midst of the worst recession since the 1930's. (Table 4) There was a sharp decline in industrial production, private domestic demand and business investment during that period.

Between August 1981 and December 1982, Canada suffered a net loss of 608,000 jobs or 5.5 per cent of total employment.[17] There is little doubt where this most current economic decline is causing unemployment. Particularly severe cutbacks have been experienced in forestry production, metal mining and the manufacturing and trade sectors. Over 53 per cent of the total jobs lost during the worst part of the recession (August 1981 to December 1982) were in manufacturing which lost 18.7 per cent of its total employment.

New job growth has occurred since 1982. There were 311,000 more jobs in August 1983 than in December 1982 including 55,000 more jobs in manufacturing and 34,000 more jobs in primary industries not including agriculture. But this still leaves the total level of

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[17] Statistics Canada, The Labour Force, Cat. 71-001, August 1981, December 1982.

Table 4

Employment and Productivity

Total Economy, Percentage Changes
from Previous Period,
Seasonally Adjusted at Annual Rates

	1981	1982
United States		
GNP	1.9	-1.7
Employment	1.1	-0.9
GNP/Employment	0.8	-0.8
Japan		
GNP	3.8	3.0
Employment	0.8	1.0
GNP/Employment	3.0	1.9
Germany		
GNP	-0.2	-1.1
Employment	-0.7	-1.8
GNP/Employment	0.5	0.7
France		
GDP	0.3	1.7
Employment	-0.7	-0.1
GDP/Employment	1.1	1.8
United Kingdom		
GDP	-2.1	1.2
Employment	-3.7	-2.7
GDP/Employment	1.7	4.0
Italy		
GDP	0.1	-0.3
Employment	0.5	-0.4
GDP/Employment	-0.3	0
Canada		
GNP	3.1	-4.8
Employment	2.6	-3.2
GNP/Employment	0.5	-1.6
Total of above countries		
GNP/GDP	1.5	-0.3
Employment	0.2	-0.7
GNP (GDP)/Employment	1.3	0.4

Source: OECD, Economic Outlook 33, July 1983, p.44. GNP = Gross National Product, GDP = Gross Domestic Product as provided by OECD.

Table 5

Employment By Industry, Canada
(seasonally adjusted August 1981/August 1983)

	August 1981	August 1983	# Change	%
Agriculture	495	485	- 10	- 2.0
Other Primary Industries	324	283	- 41	- 12.7
Manufacturing	2,138	1,882	- 256	- 12.0
Construction	651	564	- 87	- 13.0
Trade	1,894	1,845	- 49	- 2.6
Transportation, Communication & Other Utilities	901	869	- 32	- 3.5
Finance Insurance and Real Estate	594	594	0	0
Services	3,229	3,414	+ 185	+ 5.7
Public Administration	758	768	+ 10	+ 1.3
Totals:*	10,989	10,727	- 262	- 2.4

Full-Time	9,521	9,047	- 474	- 5.0
Part-Time	1,488	1,706	+ 218	+ 14.7

Source: Statistics Canada, The Labour Force, Cat. 71-001, August 1981, August 1983.

* Figures may not add up due to seasonal variations in specific industries and due to rounding.

employment 262,000 less in August 1983 than it was in August 1981. Compared to August 1981 there are still 256,000 fewer manufacturing jobs with large deficits also in the primary resource sector, construction, trade and transportation, communication, and utilities. (Table 5) The only significant growth in the past two years has been in the services which, along with public administration and agriculture, helped offset the declines in all other sectors.

Approximately half the job growth since December 1982 has been part-time employment. Since 1981 the number of full-time jobs lost in Canada amounts to close to half a million, while the growth of part-time jobs amounted to an extra 218,000. (Table 5)

The modest recovery since 1982 has been the result of a recovery in consumer spending and industrial production, but it appears short lived. Projections by the Conference Board of Canada suggest that there will be slower growth in the years ahead compared to 1983.

Real G.N.P. is projected to grow at a rate of 3 per cent in 1983, 2.7 per cent in 1984 and to decline to 0.4 per cent and 0.7 per cent in 1985 and 1986 respectively. (Table 6)

Table 6

Real G.N.P. Growth in Canada

1983	3.0
1984	2.7
1985	0.4
1986	0.7
1987	2.8
1988	2.9

Source: Conference Board of Canada Forecasts, 1983.

Under current circumstances it is difficult for anyone to argue that the recent very high levels of unemployment are the product of insufficient demand for labour. There is no apparent willingness to acknowledge that unemployment of less than 10 per cent is related to weak economic performance. And there is a tendency to attribute the severity of the current recession to forces beyond our control. But there is evidence that the particular severity of Canada's experience reflects inherent problems in the Canadian economy which existed long before 1981. A recent analysis of the recession by Arthur Smith, former chairman of the Economic Council of Canada, and Barbara Smith claims:

> "there has been a failure to realize fully the extent to which the severity and breadth of the recession was attributable to domestic economic dislocations and misjudgements in Canadian economic policy settings"[18]

It is true that throughout the 1970's Canada had one of the highest rates of growth in employment and domestic product of any of the OECD countries.[19] But figures on real growth obscure the problems with Canada's economy and when they began. Part of the reason for the relatively strong growth rates in Canada's employment and domestic product was due to strong growth in population and labour force. When measured on a per capita basis, Canada's economy started to decline much earlier than 1981. Compared to other major OECD countries Canada has slipped from one of the highest in per capita output to one of the lowest. In 1960 Canada's gross domestic product per capita ranked second only to the U.S. By 1975, Canada ranked fourth and by 1979 it had fallen to twelfth. (Table 7)

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18 Globe and Mail, Tuesday, October 11, 1983, p.B3.

19 Department of Finance, The Current Economic Situation and Prospects for the Economy in the Short and Medium Term, November 1981.

Table 7

Gross Domestic Product Per Capita - Rank Order

	1960	1963	1970	1975	1979
Switzerland	5	4	4	1	1
Denmark	10	9	5	3	2
Germany	11	10	7	7	3
Sweden	3	2	2	2	4
Luxemburg	4	5	6	11	5
Belgium	13	13	11	8	6
Norway	12	11	8	6	7
Iceland	6	6	12	12	8
Netherlands	8	7	9	9	9
France	9	8	10	10	10
United States	1	1	1	5	11
Canada	2	3	3	4	12
Japan	15	15	15	14	13
Finland	14	14	13	13	14
United Kingdom	7	12	14	15	15

Source: Adapted from OECD National Accounts and Main Economic Indicators.

b) Historical Weaknesses in the Canadian Economy

Historically Canada's wealth has come in large part from exploiting and exporting the natural resources with which we are well endowed. We have used the revenues gained from exporting staple products to offset a large imbalance of trade in manufactured goods. The end-products sector has always been relatively weak in Canada.

We import on a net basis approximately 25 per cent of all our manufactured goods in this country - a very high ratio compared to most other industrialized nations. Our largest trade imbalances in manufactured goods are in machinery for our primary industries such as mining and oil and heavy equipment for construction. This manufacturing trade imbalance signals a profound weakness in Canadian economic potential and the potential for generating employment opportunities. Manufacturing jobs tend to be more labour intensive than primary resource extraction jobs, and they have important multiplier effects by requiring extensive infrastructure development such as education, transportation, and related services, as well as a network of feeder and support industries that also generate employment in themselves.

Canada has also long been dependent upon foreign investment both in its primary industries as well as in manufacturing. This dependence has been encouraged by all levels of government and has, during periods of growth, had important economic benefits. But such dependence has also had negative consequences, especially during periods of economic decline. These have been well documented by the Science Council of Canada.[20] Foreign owned enterprises tend to purchase their production inputs from their home based plants and

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20 John Britton, James Gilmour, The Weakest Link, Science Council of Canada, 1978.

they do not have the same positive multiplier effects on employment that an industry has that uses locally produced inputs. Branch plants also have poorly developed research and development capacities, this work invariably being located in the country of ownership. The effect of a high level of foreign ownership is to limit the process of innovation and development in the Canadian economy, thus preventing the growth and expansion of new and innovative industries.

The foreign owners of branch plants also patriate profits and dividends from Canadian operations and since 1971 this has contributed to problems in the current account of Canada's balance of payments. Increasingly large net exports of goods and services -- selling more of Canada's national resources abroad - is required to finance this patriation of profits and dividends.

These structural weaknesses do tend to exaggerate the experience of recession because they mean that Canadian economic policy is constrained by fluctuations in international commodity markets and the decisions of foreign owners. These historical weaknesses are exacerbated by the problems of productivity in Canadian industry, by the process of industrial restructuring and by the new conditions of international capital mobility.

c) The Problem of Productivity

Canada's ability to produce efficiently has been in decline for at least the past decade. Low productivity growth has been a problem in most OECD countries since the early 1970's, but Canada's performance has been especially poor. Between 1973 and 1980 output per employed person actually declined by 0.2 per cent, while the

U.S., the U.K., West Germany, France, Italy and Japan all increased their level of output per employee. (Table 8)

Most analysts agree that the slowdown in productivity is one of the important reasons why Canada's overall economic performance has deteriorated relative to other countries. A slowdown in productivity growth means a slower growth in income for work (between 1975 and the end of 1983 the average take-home pay of a wage and salary earner declined by 2.3 per cent) and helps explain the problem of simultaneous inflation and stagnation.

The problem of productivity stagnation is not well understood by economists. It has recently been the subject of considerable attention by the Economic Council of Canada. Yet systematic efforts to determine the precise cause of our decline in productivity growth have not been entirely successful. Large residuals of unexplained productivity changes remain. The ECC claims that the largest single cause of the most recent decline in productivity growth since 1975 is the result of the slowdown in economic activity. Since this was largely brought on by the contradictory policies of high interest rates on one hand and incentives to invest on the other the culprit here can be directly linked to Canadian economic policy.

> "In Canada... about 40 per cent of the slowdown since 1972 can be explained by factors other than the change in total factor productivity - mostly by the occurrence of a protracted recessionary period. The remaining 60 per cent is cessation of growth as yet unexplained, in total factor productivity."[21]

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21 Economic Council of Canada, The Bottom Line, Ottawa, 1983, p.14.

Table 8

Growth in Output Per Person Employed
Major OECD Countries, 1960 - 1980

	1960 - 1973	1973 - 1980
Canada	4.2	-0.2
United States	2.8	0.5
United Kingdom	3.6	1.7
West Germany	4.7	2.9
France	5.7	3.2
Italy	5.7	2.1
Japan	9.0	4.7

Source: OECD, Economic Outlook, Paris, December 1982, Table 17.

The remaining 60 per cent is attributed to unexplained residuals and constitutes the "productivity puzzle" plaguing U.S. and other western nations as well as Canada. The ECC identifies several possible areas of investigation to explain this rather large residual. They include technical change, economies of scale, internal organization, inflation and the weight of government.

One argument that attempts to explain productivity declines is that government is too large and is taking too great a proportion of the national product. But this explanation does not hold up under close scrutiny. There is no doubt that government activity in the economy has risen significantly since 1950. But the trend toward greater government spending relative to G.N.P. is misleading. In order to understand the economic implications of greater government spending we have to decompose the elements of government spending into direct spending and transfer payments to individuals. Since transfer payments to individuals represent the redistribution of private consumption they cannot properly be regarded as government spending. Direct government spending as a proportion of G.N.P. did rise steeply between 1950 and 1967 but this was in part explained by the incorporation of medical-care and hospital expenses into the public sector. When viewed in terms of the actual volume of government spending represented in deflated constant dollars there has been an actual decline in government spending relative to G.N.P. between 1967 and 1981.[22] This period corresponds to the period of greatest productivity decline in Canada.

The largest component of growth in Canadian government spending has been in the area of transfer payments. If the size of the

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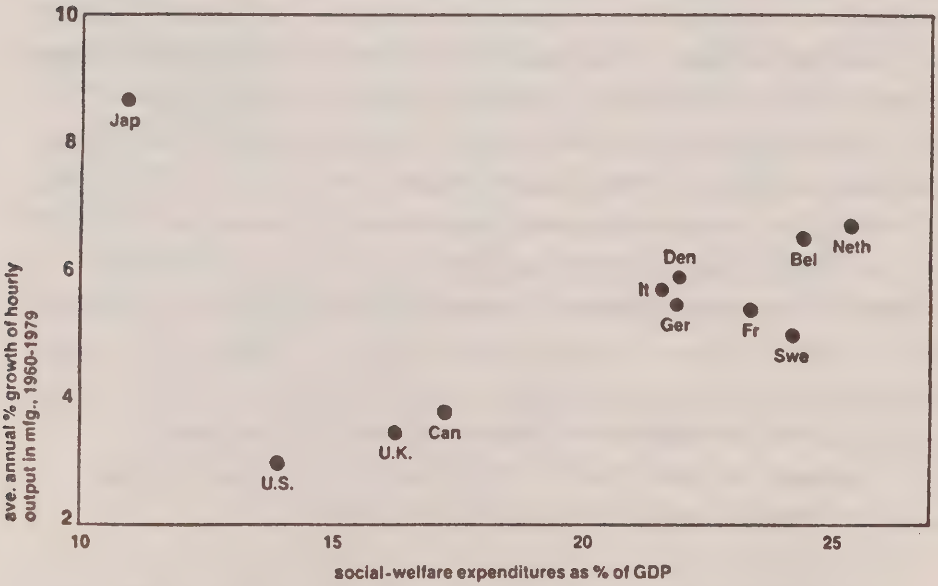
22 Arthur Donner, "How Big is the Public Sector?", The Toronto Star, October 22, 1983.

public sector is not the problem in Canada's poor productivity record perhaps Canada's "generous" transfer payments programs are contributing to work disincentives and therefore lowering productivity. A multi-country comparison of social welfare spending and productivity shows that there is in general a positive correlation between welfare spending and productivity. (Figure 4) We have to look elsewhere for the cause of Canada's productivity problem.

Figure 4

Government Spending and Productivity Growth

International comparison of hourly output growth in manufacturing and social- welfare spending as % of gross domestic product, 1960 - 79



Source: Hourly output data from U.S. Bureau of Labour Statistics, unpublished data, 1982; social-welfare expenditures include health, education, and income support payments -- from OECD, National Accounts, 1982, Vol. 2, and unpublished data. Figures on social spending are averages of levels in 1960 and 1979. From: Bowles, Gordon Weisskopf, Beyond the Wasteland, Anchor Press/Doubleday, New York, 1983.

Problems in the economies of scale of Canadian manufacturing have also been pointed to as the underlying reason for the inability to develop a sound manufacturing base. The need to develop better economies of scale is also used to rationalize a commitment to free trade and greater access to foreign markets. But the problem of economies of scale in manufacturing has significance to forms of standardized mass production more common to the 1950's and 1960's. Increasingly successful industry is dependent more on specialized production than long production runs. Moreover new technologies of production are encouraging vertical disintegration of industries and decentralization leading to fragmented production.[23] And the most recent Tokyo round of GATT agreements has reduced the effective tariff barrier to and from Canada to a marginal per cent of the price of commodities thus opening foreign markets to Canada while also opening Canadian markets to foreign producers.

Conventional economic models used to explain productivity changes usually focus on the mechanical or technical inputs to the production process including units of human labour distinguished only by skill level. Much of the unexplained residual in productivity studies both in Canada and the U.S. might be understood in an investigation of how people in the production process both workers and managers, as well as the social organization of production, affects productivity.

Labour productivity depends not only upon skill levels but also upon work intensity. A worker's motivation to work will be conditioned by a complex array of factors. Perhaps the most important element affecting work motivation will be conflict arising between labour and management. There is a large body of literature

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[23] Economic Council of Canada The Bottom Line op. cit. p. 15.

bearing testimony to the importance of work satisfaction to work intensity. Evidence suggests that the conditions for greater work intensity will be diminished if workers have little or no control over the production process, if they are clearly distinguished from management by rigid and irrational layers of authority and control, and if these divisions are reinforced by large differentials in status and income.

There is also evidence that the wage/occupational structure in Canada is highly segmented and inequitable.[24] We believe that conditions within the workplace and divisions that are created between workers can lead to significant problems in productivity.

The conflictual nature of the Canadian industrial relations scene has been remarked upon by business, government, and labour alike. The evidence of severe conflict between capital and labour is perhaps best illustrated by the Canadian record on strike activity. A recent study by The Financial Post found that in the period 1980 to 1982 Canada had the worst record in days lost per employed worker because of a strike.[25] Time lost during that period averaged 834 days per 1,000 workers per year compared to 752 for Italy. Canada's strike record has always been poor. Since 1973 it has averaged the second highest in days lost per employee among the major OECD partners. (Table 9).

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[24] Social Planning Council of Metropolitan Toronto, "Poverty and the Labour Market", Working Papers for Full Employment #4, 1981.

[25] James Bagnall, Financial Post, August 27, 1983.

Table 9

Days Lost per Thousand Employee's, 1973-1983
(yearly average)

Italy*	1,211
Canada	914
Australia*	705
Britain	471
United States	396
France*	192
Sweden	133
Japan	94
West Germany	40

Source: Strikes and Lockouts in Canada, 1973-1982, Corporation Labour Unions Returns Act, and U.S. Bureau of Labour Statistics, from Financial Post, August 27, 1983.

The most striking conclusion reached by the Financial Post in its analysis of strike patterns is:

> "the remarkable correlation between the most strike prone industries and the accident rates of their employees. In fact strikes and accidents may have a common cause. Unions in four of the five most strike ridden industries often do heavy physical work in remote locations typical of resource-related companies"[26]

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26 Financial Post, August 27, 1983, p.1.

In addition, the high degree of instability characteristic of the resource export industries which are subject to dramatic fluctuations in external demand and to levels of economic activity has been found to create an uncertain climate in labour relations contributing to higher levels of strike activity and greater difficulties in resolving industrial disputes.[27]

There is, as the Economic Council of Canada reminds us, a very strong likelihood that productivity growth declines that have affected most western nations have common causes.[28] A recent investigation of productivity declines in the U.S. by Bowles, Gordon and Weisskopf confirms the belief that social factors have an important bearing on the productivity slowdown in the U.S.[29] A social model of productivity was employed and proxies were isolated to measure conflict between workers and management over issues such as the intensity of supervision, job satisfaction, work safety and income inequalities, and conflict between communities and corporations over issues such as pollution. Their empirical investigation using multivariate regression analysis of the productivity slowdown in the U.S. between 1966 and 1979 found that these social or institutional factors account for all of the productivity decline in the U.S. in the period 1966 to 1973 and two thirds in the period 1973 to 1979. The remainder in the period 1973 to 1979 is accounted for by the lower level of economic activity in that period brought on by tight fiscal and monetary policies.

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27 H. Clare Pentland, A Study of the Changing Social Economic and Political Background of the Canadian System of Industrial Relations, Privy Council Office, Ottawa 1968, unpublished.

28 Economic Council of Canada, The Bottom Line, op. cit. p. 12.

29 S. Bowles, D. Gordon, T. Weisskopf, Beyond the Wasteland, Anchor Press/Doubleday, 1983, p. 122-149.

d) The Quality of New Investments

While the social factors we have identified may account for much of the poor performance of Canada's economy, there are other institutional factors which also act as impediments to productivity improvements. These problems are rooted in the structure of corporate behaviour and they raise questions about the effectiveness of an economic recovery strategy that relies on the private sector for efficient investments and productivity growth.

The nature of corporate organization and the peculiarities of corporate behaviour have been investigated in a recent book by Harvard business analyst Robert Reich.[30] Reich argues that the organization of corporate life in America is at the root of economic decline. Reich shows how corporate management has undermined the America economy while it has restructured industry in the interests of short-term largely paper-profits. Corporate management is increasingly well schooled in intricate corporate accounting procedures and the legal intricacies of the tax code but knows all too little about factory techniques and the motivation of human beings. Reich argues that corporate management in America expends considerable energy on what he calls "paper entrepreneurialism" rather than real productive investment.

While it is difficult to generalize these conclusions to Canadian corporate behaviour there is evidence that similar conclusions can be drawn for Canadian business as well. In a recent statement Thomas Maxwell, Chief Economist for the Conference Board of Canada, attributes Canada's poor productivity growth largely to the quality of Canadian management and its preoccupation with short-term profits.[31]

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30 Robert Reich, The Next American Frontier, N.Y. Times Books, 1983.

31 Globe and Mail, "Report on Business Report on Productivity", April 25, 1983, p.B11.

We are accustomed to believe that technological change always will increase productivity because it will increase the labour output ratio. But the effectiveness of new capital investments in Canada is questionable. A recent study by Uri Zohar for the Canadian Institute for Economic Policy found that at least part of the problem of productivity declines in Canada's manufacturing sector related to the poor quality and deterioration of capital stock in Canada.

> "the main finding of this study is that the problem of declining productivity growth relates more to inefficiencies in the use of capital than labour... one reasonable explanation for the stall or decline in productivity growth in the manufacturing sector is that the stock of capital in some industries is depleted. Depleted capital stock signifies outdated technology, which in turn lowers the level of labour productivity or at least precludes an increase from prevailing levels. ... not only does the quantity of capital replacement affect advances in productivity, but also the quality of such capital determines to a large extent the resultant increase in productivity. For example, if a company replaced an old machine with an identical new machine, the probability is high that there would be no growth in productivity for the same technology prevails in both the old and new machines. The constancy in marginal productivity of capital in many industry groups may be attributable to this phenomenon."[32]

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[32] Uri Zohar, Canadian Manufacturing: A Study In Productivity and Technological Change Vol.I, James Lorimer, 1982, p. 78.

There have undoubtedly been significant improvements in productivity in certain sectors such as in automobile manufacturing. But these findings do suggest that Canada's industrial sector has suffered a deterioration in its capital stock. This raises questions about the effectiveness of an industrial strategy based on broad based tax incentives to the private sector.

This analysis of economic decline and the problems with the Canadian economy suggest to us that Canada's ability to achieve full employment is undermined by several identifiable factors that are amenable to public policy intervention: the historical weakness of the structure of the Canadian economy with its heavy reliance on resource export and foreign ownership, deteriorating capital stock and poor quality capital investments, the social organization of the workplace and orientation of corporate management. Changes, however, will occur and are occurring despite these weaknesses. These changes will in many cases further undermine our employment generating capacity and our future economic well being.

e) Change and Adjustment

Industrial restructuring is inevitable and can be desirable. There is evidence that the kind of industrial restructuring that we are experiencing in Canada is not all positive. There are basically three forms of industrial restructuring occurring in the economy. The first two are related to technological change. One form of restructuring occurs internally to existing industries by way of using new and better process technology to improve productivity in production. An example of this would be the use of robotics in automotive production or word processors in office work. The development of new technology also affects the structure of in-

dustry by way of opening up new opportunities for production. The demand for energy saving devices leads to the development of biomass or solar technology, and there are a whole range of new consumer electronic products that have come on the market over the past ten years such as video recorders and home computers. The third form of industrial restructuring may be the most important; it is the industrial restructuring that is the result of the global reorganization of industry.

f) Technology in Production

Most observers agree that technological change in traditional industries and occupations has tremendous potential for labour displacement. In places like Windsor, Ontario the effects of automotive re-tooling have already been felt. Much more can be produced with far less labour and this has created a large and serious unemployment problem. It is likely that we have only seen the beginning of this process of technological change in production. The full effect of robotics and new office technology is still to be felt. A recent discussion paper for the Ministry of State for Economic Development suggests the magnitude of the labour displacement that could occur.

> "In the traditional sectors, the rate of productivity increase is, if anything, accelerating, using robots to compete with cheap labour. The net effect is a large loss of jobs in these traditional industries. This has until recently, led only to a lack of job growth in these sectors, but through the coming decade the job losses will probably be large, from one-quarter to

one-half of the existing levels of direct employment in some of these industries."[33]

Unless there is a very significant growth in job opportunities in new industries or elsewhere in the economy, permanent technological unemployment will likely be the result for large numbers of workers in these industries.

g) New Product Development

There will undoubtedly be opportunities for Canada in the development of new industires based on new technology and design. There are structural difficulties that have to be overcome in the pursuit of new high-tech industry before we can hope to use it to achieve significant new job growth. One of these is the problem with foreign investment and the lack of support for research and development in Canadian industry. Many of these problems have been outlined by the Science Council of Canada in their report The Weakest Link to which we have already referred.

Even if Canada could develop the best possible industrial strategy to capture a significant share of these new productive opportunities there is evidence that new job opportunities will remain limited. New industries that are technologically oriented generally have sophisticated production processes in themselves and will therefore not have large labour requirements. Evidence from the United States suggests that we should not rely on the high-tech sector as a solution to our problem of unemployment.[34]

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[33] Ministry of State for Economic Development, The Rocky Road to 1990, January 1983.

[34] The New York Times, Sunday, September 18, 1983, p.1.

Moreover new high-tech industries may not provide the expected demand for high skilled labour as well. There will be a requirement for a limited number of highly skilled designers and technicians but the bulk of employment in these industries has proved to be low waged, repetitive, and tightly supervised. This is the case with silicon chip production and electronics assembly, some of which has already been captured by Canadian industry. Nor are new high-tech industries moving to those areas where traditional industries have closed. Employers are often reluctant to deal with a workforce that has a tradition of trade unionism and prefer instead to move to an area where trade unions are weak.

One outcome of this form of industrial restructuring will be increasing inequalities in society. Most new job growth in Canada's future is likely to be in the poorly paid low skilled services sector. If Canada can expect a similar pattern to that of the U.S. it can expect that the list of new occupations created will be headed by secretaries, nurses aides and orderlies, janitors, sales clerks, fast food workers, general office clerks, and waiters and waitresses, in that order.[35] While we often like to think of the benefits of the use of new technology as relieving us from boring, repetitive work, the fact is that the market will undermine this goal. It will make more economic sense to replace high paid skilled workers such as welders and draughtsmen with technology than it will fast food workers working at minimum wage.

This pattern of job growth has led some analysts to claim that the future of the middle class is in jeopardy.[36] Even if

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[35] ibid

[36] Bob Kuttner, "The Declining Middle", Atlantic Monthly, July 1983, p.60.

economic growth is restored and everyone is better off because the national product has increased, wage distribution will become more unequal. This will have profound effects on the economy. There will be a considerable loss and unevenness in consumer demand which will keep the economy from developing to its full potential. What will be needed will be a mechanism other than wages for distributing the product of economic growth. Yet this is precisely the opposite of current social policy thinking with its reinforcement of wages as the central element of income distribution.

h) Capital Mobility

Some economists believe that while the application of new technology to industry and product development is a problem in terms of employment for the future, the real problem of industrial restructuring is related to capital mobility and the emerging new international division of labour.

Plant closures and layoffs are not new to Canada. There is already evidence of rapid industrial change in Canada. The recent study by the Economic Council points out:

> "A surprising and little-known fact is that 'birth rates' and 'death rates' are very high. This is true in the average Canadian manufacturing industry but it is also true in other industries and in the United States... An average industry had 88 firms in 1970. By 1979, no fewer than 38 deaths had occurred... with 32 of them being actual scrappings. At the same time, 25 births of new firms occurred ... with 22 of these occurring through the construction of new plants.

> Bearing in mind that the picture is one of an extremely dynamic industrial structure with literally thousands of entries and exits over the decade, the turnover is enormous."[37]

The intensification of international industrial competition in the late 1960's and early 1970's required that Canadian industry attempt to reduce costs. Many corporations did so by way of reorganizing production internally, making new investments or reducing their workforce. But many also decided that the most effective method of reducing costs and gaining greater flexibility in their production was to move. Capital mobility on a world scale has led to industrial restructuring that has had a severe impact upon Canada's economy and on our employment stability as well as the stability and integrity of many communities.

The conventional view is that layoffs and plant closures are the unfortunate by-product of an efficient and progressive economy. Labour, it is believed, cannot remain static since firms must adjust to ever-changing circumstances if they are to remain competitive and profitable. Although it is recognized that layoffs result in hardship that must be borne by job losers, the benefits to society of industrial restructuring are supposed to outweigh the costs. Any undue hardship is expected to be compensated by unemployment insurance and it is assumed new opportunities for workers will present themselves. This perspective provides an abstract if not idealistic rationale for industrial restructuring over the long run and it legitimates plant closures and layoffs as due to seemingly inexorable economic forces.

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[37] Economic Council of Canada, The Bottom Line, op. cit, p. 115.

The reality, however, is quite different from the theory. As we have already pointed out new job growth is not likely to occur in a manner that would replace the lost jobs with jobs of comparable wages. During periods of prolonged recession workers are unlikely to be able to find new jobs and, as has been the case, unemployment insurance has not been adequate as many people exhaust their entitlement to benefits and have no other recourse but welfare. But there is also evidence that this theory of the inevitability of industrial restructuring, plant closures and layoffs vastly overstates the need for unrestricted capital mobility.

The industrial restructuring that we have experienced is manifested in a global reorganization of production on a massive scale. There has been a dramatic shift in investment and production in steel, auto, shipbuilding, mining, electronics and textile industries in the "Newly Industrialized Countries" (NIC's). The condition under which this global reorganization is occurring cannot always be claimed to be favourable either to the third world countries where new production facilities have been installed, nor to the first world which is losing its traditional productive base. For much of the third world these industries are export oriented and specifically geared to export to North America and Europe. The economic growth that is being experienced by these countries is more apparent than real since the wage levels are so low that the indigenous population does not have the ability to consume the products of industrialization. This is particularly true in those parts of the world where assembly operations have been established in "free trade zones".

Economists Barry Bluestone and Bennet Harrison have identified the revolution in transportation and communications technology as the cause of increased capital mobility:

> "The ability to move managers and key components at nearly the speed of sound by jet, and to move money and the information needed to coordinate production at nearly the speed of light enables capital, as never before, to go anywhere in the world. As that technology continues to improve, as the costs of transportation and information decline, the ability of all forms of industry to move and to locate wherever they can get even the smallest cost advantage will become a primary factor in firms' location decisions. The competition for capital between communities in various parts of the country and between countries will be exacerbated. That is the greatest threat to working people from these technological advances, far more than the threat of robots on the assembly line."[38]

It is easy for us to regard this process of global restructuring with some inevitability. But the consequences for Canada can be devastating. It will intensify Canada's historical tendency to rely on staple export trade and will make it difficult for Canada to develop a domestic industrial strategy. The increasing competitiveness of the international economic order might also be understood as a process whereby corporations are seeking to bargain for a better business climate in North America by holding up the potential for super profits potentially earned elsewhere. These conditions jeopardize any local effort to stimulate investment growth and industrial innovation in Canada. Firms may take advantage of

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38 Interview with Barry Bluestone and Bennet Harrison, Working Papers, January/February 1983, p. 43-44.

government assistance in the establishment of industry in Canada at its incubator stage and when established will find it easy to move to the Phillipines or Brazil or elsewhere, where labour costs and labour conditions are viewed as more favourable.

Several recent examples of capital mobility in Canada serve to highlight the conflict between social and economic goals as a result of capital mobility.

Upon first glance the closing of the Hamilton switch gear and control plant in 1979 by Westinghouse Canada, seemed like it was based on sound business analysis. The industry was faced with stiff international competition and unfavourable tariffs and there was a need to rationalize operations in more efficient facilities. However, the union involved contested this view and a year later the Labour Relations Board confirmed the union's view that Westinghouse's management had decided many years previous that its long term strategy for the plant was to run it down so that it could justify a closing to escape the union by moving to several non-union locations in southern Ontario. This procedure is sometimes referred to as "milking a cash cow". It involves a decision by a corporation, often many years previous to the closure, to not replace or repair old machinery or buildings thus running them down and securing an accelerated cash flow from this activity to invest elsewhere.

A similar example here in Metropolitan Toronto was the Swedish multinational SKF. This historically efficient and profitable ball bearing plant had been divested of its most profitable lines for several years leaving it with a product line that could not be justified for continued production under market conditions in the early 1980's.

There are many other examples of corporate decision making which have similar questionable roots and have considerable social and economic costs that the corporation does not have to bear. These include Canadian General Electric's steam generator plant in Scarborough, Massey Ferguson's downtown Toronto plant and Canada Packers' meat packing plant in Toronto.

We find it difficult to accept the claims of corporations that the decisions they make are always the best from a social point of view - it is also diffiuclt for us to accept the notion that they are always economically rational as well. What is rational from the point of view of the corporation is not always rational and efficient from the point of view of society and the communities and workers involved. The social and economic effects of layoffs and plant closures can be significant and corporations do not have to consider these costs in their decisions to lay off or close a plant. The corporate balance sheet does not have to account for externalities in assessing the cost of making a move. An economic structure that allowed for the full accounting of these costs might see considerably less capital mobility.

i) Implications for the Future

This analysis of economic decline in Canada and the process of change and adjustment has far reaching implications both for current public policy and for the future of Canadian society. There is a clear and pressing need to address the structural and institutional weaknesses in the Canadian economy which are both creating the difficulties we now face and are undermining our future prospects. Canada's performance has been worse than most of the OECD and there are lessons that we should be learning from our experiences.

The first lesson is that if we are to improve our chances at economic recovery and full employment then we must develop a sound and diverse economy. Our heavy reliance on imports in manufactured goods is not the basis for a healthy full employment economy. Canada requires much greater attention to the growth prospects of manufacturing activities both for export and for domestic production.

The second lesson we should learn from this analysis of our economic problems is that the current policy framework which views the private sector as the "engine of economic growth and recovery" is misguided and probably will be unsuccessful even in the achievement of its own objective - economic recovery.

Industrial policy in Canada has been largely facilitated through the tax system. A series of generalized tax concessions to private industry have constituted the core of government efforts to direct and expand industry. These have included deductions from tax payable, accelerated depreciation allowances, fast write-offs, tax holidays and tax credits.

Canada now has the most generous allowance for depreciation on fixed investments over the first seven years of an asset's lifetime, compared to the U.S., Japan, Germany, France, and the United Kingdom.[39] These tax expenditures by the federal government have been estimated to amount to an average of $3.0 billion per year between 1974 and 1975.[40] And their cost has apparently outweighed their benefits in terms of new investment realized. The commitment to

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39 Office of Economic Policy Planning and Research of the State of California "International Economic Performance and Comparative Tax Structure" unpublished report, January 20, 1981, Cited in Bowles et al. op. cit. p. 421.

40 Kenneth N. Matziorinis , "The Effectiveness of Tax Incentives for Capital Investment". <u>Canadian Taxation</u>, Fall 1980, pp. 172-179, p. 176.

generalized tax concessions stems from the desire to reinforce the private sector's independence in making decisions about the magnitude, timing, type and distribution of capital investment rather than a rational strategy for investment in new industries for the future.[41]

Our analysis suggests a need to look critically at our assumptions about private sector efficiency and market price signals as the basis for rational economic decision making. Other countries with a much better economic record than Canada's have recognized the need for public control of the investment process in a way that allows a country to strategically set out to achieve production and employment goals. We believe that for Canada to face the future with any degree of certainty we must develop alternative and more-active policy instruments than those that attempt to passively support private sector activity.

The third lesson of importance is that poor labour-capital relations are part of the cause of our productivity problem. It is our belief that factors such as hierarchy in the occupational structure, repressive and unsafe work environments and the lack of democratic management structures are the best way to understand this conflict. Labour market policies for the future will have to address these issues and seek to find solutions to them.

Projections into the future are difficult to make. But we have identified at least two disturbing trends facing us in the years to come. The first is that technological change will result in substantial labour displacement that will not be adequately

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[41] ibid, p. 179.

compensated by new job growth in other sectors. And the threat of a highly divided two-class society as a result of the current decline of traditional industries suggests potential for greater income inequalities in the future and considerable social tension. This tendency will be reinforced by efforts to cut-back on social spending and income security programs.

IV EQUITY AND EFFICIENCY:

a) The Rise of Social Policy

The post World War II national censensus that gave rise to social policy developments in the 50's and 60's emerged out of the necessity on social and political grounds to prevent the recurrance of the social disruption of the 1930's. The new Keynesian framework provided the economic justification for increased social spending on income security, health, education and housing. For economists this spending served a dual purpose of meeting social needs and of lending stability to the economy by sustaining demand. The feasibility of expanding social programs was founded upon the notion that it was essential to achieve, if not "full employment", then at least high levels of employment and steadily rising incomes. The political compromise of this new framework was that income and services would be increasingly socialized, but investment was to remain private. The role of government was to create a stable market for investment.

The development of social policy in Canada was slow at first, particularly since the strong economic growth and relatively low levels of unemployment resulted in reduced political pressure for new social programs. Complex political negotiations between the federal and provincial governments on appropriate responsibilities and the sharing of tax revenues further dragged out its development. The strong tradition in Canada of commitment to residual or needs-related programs put further barriers in the way of the development of social policy.

Prior to World War II the only national welfare program in Canada was the means-tested old-age pension. Each province had

its own workmen's compensation plan, and most provided welfare benefits to single or deserted mothers.

By the early 1970's, an "institutional" welfare state existed in Canada. Government spending on income security and social services was tied to the level of unemployment, the aging of the population, the educational requirements of the young, and the medical needs of an industrial society. A vast array of non-discretionary universal social programs were an accepted part of Canadian life. Total government spending increased from 16.5 per cent of GNP in 1950 to 31.4 per cent of GNP in 1974.

While these social policy achievements do represent real social progress it is important to remember that poverty, inequality and social need were not alleviated. Significant levels of poverty remained while the growth of the tax and transfer system did not result in a more equitable distribution of income over the thirty year period. Social programs were tainted by their stigmatizing elements and the welfare state was perceived as bureaucratic, inflexible and unresponsive to community needs. A large unfinished agenda remained including income support and supplementation, pension reform, sickness and disability insurance, and a range of social and community based services. Nor was full employment ever achieved, and efforts to extend collective bargaining rights, social entitlements and rights for women, racial minorities, native groups, and the handicapped were fiercely resisted.

b) The Fall of Social Policy

No sooner had this limited welfare system been established in Canada than we began to see it dismantled. By 1975, there was considerable pressure to curtail the development of new programs, and the wisdom of existing spending levels was called into question. Escalating inflation, rising unemployment, productivity declines, balance of payment problems, declining real tax revenues and the rising public debt led government and business to back out of the agreement that allowed for expanding social programs. The validity of the Keynesian solution was now suspect as the levers of demand management could apparently no longer reconcile economic growth with social progress. If the post-war concensus saw social policy growth and economic growth as mutually supportive, the post 1975 belief was that it was precisely government spending on social programs that was at the root of our emerging economic problems. Canadians had come to "expect too much from government" and the social security provided to Canadians was "undermining market discipline". Certainly social programs were expensive and we could no longer afford them at the level we had come to expect.

Both federal and provincial governments have embarked upon significant social spending cutbacks. Combined federal-provincial spending on social programs declined from 20.1 per cent of GNP in 1975 to 19.4 per cent in 1981. (Table 10) The federal government has taken the lead in cutbacks. Social program spending by the federal government declined from 9.7 per cent of GNP in 1975 to 8 per cent in 1981.

Table 10

Federal-Provincial Spending on
Social Programs, Canada and Ontario
1975 - 1981

	Per Cent of GNP				
	Federal	All Provinces	All Provinces Total	Ontario	Ontario Total
1975	9.7	10.4	20.1	11.1	20.8
1977	9.5	10.6	20.1	10.8	20.3
1979	9.2	9.8	19.0	10.0	19.2
1980	8.4	11.1	19.5	10.1	18.5
1981	8.0	11.4	19.4	10.2	18.2

Source: Federal and Provincial Estimates.

Transfer payments to individuals have been the main target. The most serious of these were the reductions in unemployment insurance as a result of changes that reduced both eligibility and benefits as we have discussed in an earlier section of this brief. Direct federal contributions to the unemployed declined from $2.5 billion in 1975 to less than one billion dollars in 1981, while total program costs climbed in that period because of rising unemployment.[42]

The indexation of family allowances has been undercut several times so that benefits paid out in 1983 are already 30 per cent less than they would have been had indexation been maintained.[43]

Federal and provincial income maintenance programs have declined from 18.9 per cent of GNP in 1978 to 18.2 per cent in 1981 -- the only period of decline in the post war period.[44]

More recently, federal efforts have been directed to reducing transfer payments to the provinces principally for health and post secondary education. The federal share of five major provincial social programs was 48 per cent in 1975 and had been reduced to 41 per cent by 1981. It is projected to decrease to 38 per cent by 1987 without any further changes. Real spending on social programs administered directly by the federal government including health and social services research, numerous housing programs, manpower training, environmental health programs, meat and drug inspection and social and health services for native people declined by 15 per cent between 1975 and 1981.

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42 "The Erosion of Unemployment Insurance", Social Infopac, Social Planning Council of Metropolitan Toronto, Vol. I, No. 5, December 1982.

43 Social Planning Council figures.

44 Social Planning Council figures.

c) The Reasons for Restraint

Several key factors in the 1970's precipitated the dramatic shift away from the dual goals of maintaining high levels of employment and expanding social programs and social security. The first was a steady deterioration of the competitiveness of Canadian industry. Canada suffered large and growing deficits on its balance of international payments. The second important factor was the increase in the federal deficit which reached a record $4.8 billion in 1975. The deficits on the balance of trade and the public account were thought to have one single cause - inflation. Nor could the Keynesian framework account for or deal with simultaneously rising inflation and unemployment. The problem of inflation was seen as leading to the ruin of the Canadian economy. This prompted a re-evaluation of policy directions and set the stage for a dramatic reversal of previous spending commitments.

Three important policy decisions signaled the departure from past practices: the imposition of wage and price controls in 1975, the Bank of Canada decision to curb the growth of the money supply in 1975, and a 1975 decision by the Minister of Finance to limit future contributions to health care.

Monetarist and supply side economic doctrines replaced much of the policy framework of the Keynesian era. The monetarist influence focused on high interest rates and money supply limitations and the supply side influence focused on putting additional funds into the hands of private investors and entrepreneurs. This policy framework has remained more or less intact since the mid 1970's and provides the rationale for current government behaviour.

Real interest rates remain high by historical standards; wage controls are in place in the public sector; governments have made significant reductions in their social program commitments; and tax policy has been fashioned to reinforce the private sector as the "engine of economic recovery".

Increased international competition, the deterioration of Canada's manufacturing base, high unemployment and capital mobility demonstrated to us the harsh new economic realities: that new more effective levels of capital accumulation need to occur in order to improve our economic efficiency, and that governments face a fiscal crisis. The fiscal crisis is the main reason espoused for the erosion of social programs or an inability to expand them. But it is not the only reason. Other arguments have been made that see government inefficiency as inherent to state activity, public programs and government enterprise as inherently non-productive, taxes as confiscation of private entitlements, income security as undermining work incentives, and government as supplementing the family. As such, opposition to government spending and social programs emerges as opposition to protection from market forces.

There is some truth in this assertion. Adequate income security does make it less necessary for individuals to rely on their performance in the market and more on collective provision. Otherwise it wouldn't be worth much to us. But the extent to which it has undermined the market in Canada is vastly overstated. Moreover, it is not clear that equity objectives are incompatible with efforts to improve our economic efficiency. Indeed they may be essential.

d) The Role of Social Policy

Some clarification of the nature and purpose of the welfare state and social spending is required here. The idea of a welfare state is often associated with high levels of government spending and the transfer of income and services to the poor. But an advanced welfare state is not necessarily based on high government spending or more redistribution to the poor. The proper conception of an advanced welfare state is in its commitment to the idea of "social citizenship" for all members of society. This means that individual welfare should not depend on how one performs in the market place, within the family, or with private resources. "A state is a welfare state when it guarantees a decent standard of living to all, as a citizen's right."[45]

Thus principles of the welfare state include: that all people be guaranteed basic economic security independent of their relationship to the market place, that beyond minimum economic security that distributive justice and substantive equality exist and there be a commitment to "social solidarity".[46] Social solidarity means that a society is made up of individuals that are mutually dependent on each other. It is the opposite of the belief that in a society each person is responsible for their own happiness and welfare.

It should be clear that the commitment to this ideal form of welfare state has never been achieved in Canada. Despite the number of universal social programs in Canada our welfare system is still dominated by the notion of welfare as residualism. Social

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45 Gosta Esping-Anderson, "After the Welfare State", Working Papers. May, June, 1983, p. 36-41. p. 36.

46 ibid

assistance and even unemployment insurance are heavily stigmatizing and adequate income in sickness, disability and retirement still depends on a person's ability to purchase private insurance which depends on their performance in the labour market. And there is considerable pressure, within the context of the current commitment to restraint, to depart from the principle of universalism in a number of areas. The most obvious of these is the erosion of medicare, but a reduction in eligibility for unemployment insurance and the pressure on programs such as Family Allownaces, and Old Age Security are other examples of a belief in the notion that universalism is "too expensive". Proposals for universalism in income security are treated as naive and unattainable.

The problem is that anything but a commitment to universalism in social policy is likely to jeopardize even further the future of social policy in this country. Nor are commitments to selective income security based on the principle of more efficient targeting always well founded on the basis of their redistributive impact. The commitment to restraint and therefore selectivity on the grounds of unaffordability are not justified purely on economic grounds. Finally and perhaps most disturbing is that a selective welfare state will leave us unprepared to deal with emerging social and economic realities.

e) The Importance of Universality

Social policy as it has developed in Canada has never evoked mass political support for all its elements. There is considerable support for medicare and family allowances but it is not clear that the same support exists for unemployment insurance,

social assistance, and most of our social services funded under the Canada Assistance Plan. This might help explain the lack of opposition to the erosion of these latter programs compared to the considerable opposition to those that effect the middle class such as medicare and family allowances. The importance of universalism is precisely in the universal support it evokes for state spending. The more people that receive high quality services and protection from market forces, the more likely they will provide political support for high levels of state spending. This broad based political support for social policies in turn helps foster the basic sense of social solidarity and shared responsibility that forms the basis of an advanced welfare state. The future of social policy will be put in further jeopardy if it is seen as public policy that deals only with a minority of the population yet costs tax payers of the middle class. Thus there is a real danger that efforts to be more "efficient" in the delivery of social programs will sow the seeds of destruction for those very same social programs.

f) Is Selectivity More Efficient?

Advocates of increased selectivity in social programs often argue that under the current system payments or services are provided to people who do not need them and that a more selective approach would allow for a more efficient targeting of benefits to appropriate recipients while allowing for an overall reduction in benefits. There are two arguments here and they are often confused in the public mind. The first is the issue of progressivity, the other is the issue of the magnitude of government spending.

The progressivity of demogrants such as family allownaces, to use one example, cannot only be judged on the basis of the dis-

tribution of benefits paid. The tax system used to finance universal payments also has redistributive implications. What is important and often ignored in the attack on demogrants is an assessment of the distributive impact of net benefits, that is benefits net of the transfer and tax implications. It is less evident that family allowances are regressive and inefficient using such a framework.[47] Indeed the evidence is that the family allowance program is reasonably progressive within the existing distribution of income. Any effort to target payments on the lowest income groups may provide higher payments to these groups, but the implications of a net benefit analysis suggests that when the tax implications are considered those who would benefit the most would be both the needy and the well-off at the expense of the middle class.[48] If redistribution is the issue in a consideration of selectivity over universality, then advocates of selective payments had better look elsewhere for mechanisms to redistribute income.

g) Is Restraint Necessary?

Arguments against universality are similar to those that deny the possibility of expanding state spending and taxation in difficult economic times. These arguments assume that there is some optimal level of income distribution, government spending, and taxation. None of these is true.

The need for restraint argument often focuses in on the level of the federal deficit. In 1975 the federal deficit had

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[47] "With No Stigma Attached: Family Allowances and the Question of Universality", Social Infopac, Social Planning Council of Metropolitan Toronto, February 1983, Vol. 2, No.I.

[48] Michael Mendelson, Universal or Selective, Ontario Economic Council, 1981, p. 16.

reached a record $4.8 billion. This level of deficit remained throughout the 1970's until the onslaught of the 1981 recession forced federal spending into a deficit of $10 billion in that year and to over $25 billion for 1982. The projected deficit for 1983 is over $30 billion.

The most recent dramatic increase in the federal debt has been the result of the particularly severe recession in Canada which we have argued is the result of the failure of public policy in developing a diverse and resilient economy. But the need for restraint was argued long before 1981. It was being made at the same time that the general government financial balances were not high in Canada compared to other OECD countries. (Table 11) Canada's net government deficit was lower than the average of the major OECD countries up to 1981.

Table 11

General Government Financial Balances

Surplus (+) or deficit (-) as percentage of nominal GNP GDP

	1979	1980	1981	1982	1983
United States	+0.6	-1.3	-1.0	-3.8	-4.4
Japan	-4.8	-4.5	-4.0	-4.1	-3.4
Germany	-2.7	-3.2	-4.0	-3.9	-3.7
France	-0.7	+0.3	-1.9	-2.6	-3.4
United Kingdom	-3.2	-3.3.	-2.5	-2.0	-2.5
Italy	-9.5	-8.0	-11.7	-12.0	-11.6
CANADA	-1.9	-2.1	-1.2	-5.3	-6.5
Total of above countries	-1.8	-2.5	-2.6	-4.1	-4.4
Australia	-1.5	-1.0	-0.1	+0.4	-4.4
Austria	-2.5	-2.0	-1.8	-2.5	-3.5
Belgium	-6.9	-9.3	-13.1	-12.2	-11.3
Denmark	-1.6	-3.2	-7.1	-9.1	-9.3
Netherlands	-3.7	-3.9	-4.8	-6.4	-6.9
Norway	+1.9	+5.7	+4.8	+4.4	+2.1
Sweden	-3.0	-4.0	-5.3	-6.9	-8.0
Total smaller countries	-2.8	-3.0	-4.1	-4.8	-6.2
Total of above countries	-1.9	-2.6	-2.7	-4.1	-4.6

Source: OECD, Economic Outlook, Paris, July 1983.

The main reason for the federal deficit over the 1970's rests in the revenue restraint policies the federal government pursued in order to provide more incentives for private investment.

The largest reduction in government revenues is contained in what have become known as "tax expenditures". These are a series of tax policies - income exemptions, deductions and special credits or allowances - that reduce the effective tax paid by individuals and by corporations. In 1979 the federal Minister of Finanace estimated that tax expenditures then stood at a level of $32 billion. Over $16 billion was from new exemptions and deductions enacted in the 1970's.

Tax expenditures mainly benefit the rich and affluent. In his November 1981 budget the federal Minister of Finance estimated that 29,000 tax filers with gross incomes over $100,000 received tax expenditures nearly equal to 20 per cent of their incomes, an average of $40,000 annually per tax filer.[49] Those with average incomes received tax expenditures equal to only four per cent of their incomes, about $700.

Effective corporate tax rates declined during the 1970's from 38 to 29 per cent, resulting in an annual loss of over $4 billion in revenues. These tax expenditure policies to stimulate corporate investment have been judged to be not cost-effective.[50]

The April 1983 federal budget liberalized rules governing the investment tax credit, broadened the range of construction equipment items eligible for that investment tax credit, converted some investment tax credits to cash refunds, established a number of

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49 Canada, Department of Finance, Analysis of Federal Tax Expenditures for Individuals, Ottawa, November 1981, p.p. 12,13.

50 Kenneth Matziorinis, Tax Expenditures for Capital Investment, op. cit., and Social Planning Council Estimates.

special recovery programs for business, and put into effect special tax incentives for research and development, at a total cost of over $2.5 billion. People of modest and ordinary means saw their taxes increase as a result of the elimination of the $200 federal tax reduction and the $100 automatic standard deduction for charitable donations and a net revenue increase of $585 million from changes in the child-benefit system.

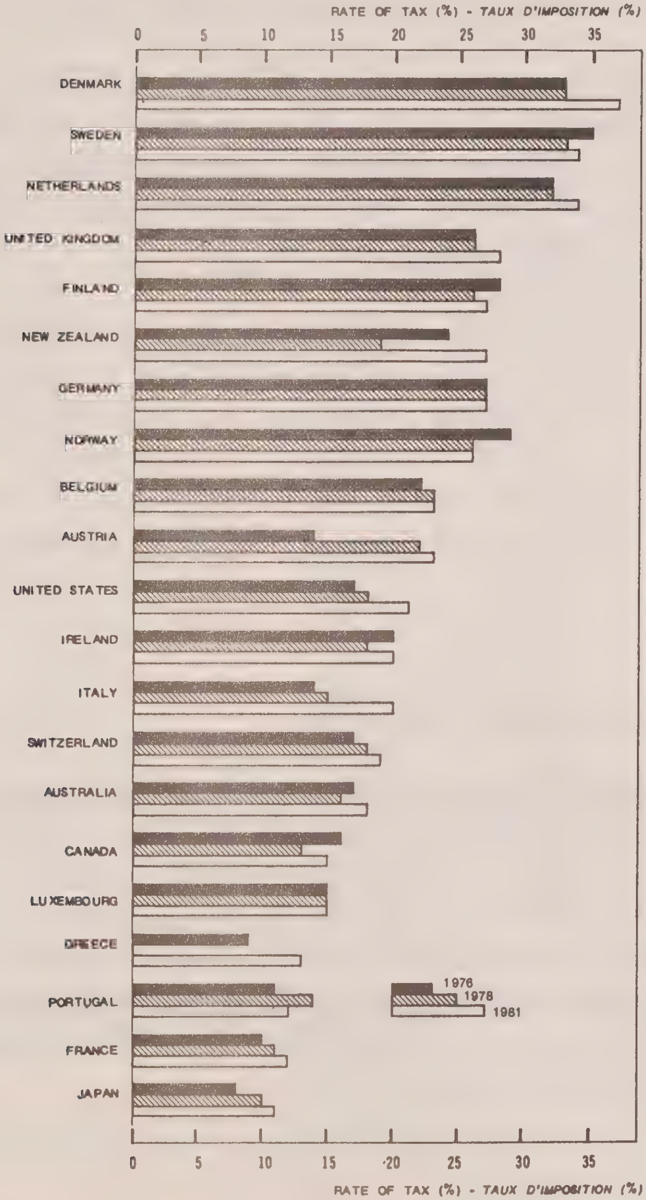
Revenue restraint is at the root of our inability to generate sufficient tax income to pay for adequate social spending. A removal of the inequitable, and apparently ineffective tax-expenditure provisions of the past decade would reduce significantly the current federal deficit. A full employment policy would reduce it even further.

Can we afford to raise taxes in order to finance social programs? International comparisons again show that the tax burden upon individual Canadians is not large when compared to other countries in the OECD. In a 21 country OECD comparison Canada ranks one of the lowest in the percentage of gross earnings taken by income tax and social security. The average one earner four person family in Ontario has an overall tax burden of just over 15% while for the U.S., it is over 20% and for Germany and the U.K., it is over 25%. For Sweden and Denmark it is approximately 35%. (Figure 5)

Opposition to an expansion of social spending is often opposition to redistribution. The perception underlying this position is that Canadian social spending has been overgenerous in redistributing income and has undermined economic efficiency. While there is no optimal distribution of income in economic theory, the belief that redistribution has occurred is belied by

Figure 5

Income Tax and Employees' Social Security Contributions as a percentage of Gross Earnings[1]
1976 - 1981



Source: The Tax/Benefit Position of a Typical Worker in OECD Member Countries, Paris, 1983.

[1] Countries are ranked by the 1981 figures.

the reality. The fact is that the incredible growth in government spending in the period 1950 to 1975 did little to redistribute income in Canada. Evidence suggests that the total package of welfare programs including the effects of taxes and transfers left the distribution of income constant throughout that period. (Table 12)

Nor has the growth of social programs eliminated poverty. The incidence of poverty in Canada has declined steadily over the past twenty years. But poverty among the elderly, especially women, is exceedingly high and there has been a dramatic increase in the number of people in poverty between 1980 and 1982.

Opposition to social spending in Canada may be rationalized by reference to the high level of the government deficit or even a perception of excessive levels of spending. But this is not the real reason for opposition to social spending. Opposition to provision of adequate social security and a more equal distribution of income rests in the belief that more social equity undermines market efficiency.

h) Are Efficiency and Equity Compatible?

The relationship between efficiency and equality in market economies has never been effectively resolved in economic theory. There is certainly no apparent optimum distribution of income in theory although an extreme degree of equality or inequality would likely impede economic performance. But the current framework operates on the assumption that more equality and more social security are inimical to more efficiency. Equity has to be traded off against growth and efficiency.

Table 12

Percentage Composition of Income of Families and Unattached Individuals by Income Quintiles

Year	Bottom Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Top Quintile	Total
1951	4.4	11.2	18.3	23.3	42.8	100.0
1954	4.4	12.0	17.8	24.0	41.8	100.0
1957	4.2	11.9	18.0	24.5	41.4	100.0
1959	4.4	11.9	18.0	24.1	41.6	100.0
1961	4.2	11.9	18.3	24.5	41.4	100.0
1965	4.4	11.8	18.0	24.5	41.4	100.0
1967	4.2	11.4	17.8	24.6	42.0	100.0
1969	4.3	11.0	17.6	24.5	42.6	100.0
1971	3.6	10.6	17.6	24.9	43.3	100.0
1972	3.8	10.6	17.8	25.0	42.9	100.0
1973	3.9	10.7	17.6	25.1	42.7	100.0
1974	4.0	10.9	17.7	24.9	42.5	100.0
1975	4.0	10.6	17.6	25.1	42.6	100.0
1976	4.3	10.7	17.4	24.7	42.9	100.0
1977	3.8	10.7	17.9	25.6	42.0	100.0
1978	3.9	10.4	17.7	25.5	42.5	100.0

Source: David Ross, Income Distribution, Canadian Council of Social Development, Ottawa, 1980.

This view is simply not true. Greater equity can be achieved in the pursuit of more efficiency. Indeed it may be that more equity and more security of income are the essential prerequisites to sound economic performance. A recent study of the relationship between growth and equity policies in a number of western nations found that:

> "The very best performers seem to have two characteristics in common. They enjoy more egalitarian income distributions... and they are far more successful at converting savings to productive investment."[51]

The achievement of growth and improved productivity does not require increasing profit levels in the private sector or augmenting the private savings of high income individuals. It requires that we consume less than we produce that we convert our savings into investments in productive activity, and that we manage those investments efficiently and rationally. For reasons we have outlined in the section of this paper on "The Economy/Change and Adjustment", this is not occurring. It is not likely to occur without a substantially different framework for economic decision making.

It may be that the dynamics of the labour market are interfered with by a generous unemployment insurance program when unemployment is low; private saving is reduced if security in retirement and protection against sickness and disability is guaranteed; levels of taxation on the wealthy and on corporations that are required to fund high quality social security and services will cut into private profits and under current market conditions will discourage investment. Under these circumstances equity can be considered to

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[51] Bob Kuttner, "Growth with Equity", Working Papers, September/ October 1981.

be in opposition to market efficiency. But the alternatives appear both unrealistic and unworkable. If individuals have their sense of security removed from them they will be far more likely to resist industrial restructuring and innovation, a need that in Canada is universally agreed upon. As state spending on income security and services decrease levels of consumer spending and employment will decrease thus reinforcing the downward spiral. Efforts to shift responsibility away from the public sector back to the private sector or the family are proving disasterous. Private profit making nursing homes for example have notoriously low standards and the contemporary family is not capable of taking on more responsibility for its members since they are increasingly alone and increasingly in the labour market. The theory that informs the current public sector restraint - private sector growth policy - is plagued with these contradictions.

The fundamental problem with the current framework is that it doesn't work. High personal savings and low taxes on capital do not necessarily translate into an effective industrial strategy. The extent to which efficiency in investment will be achieved will be less dependent upon government cutbacks in taxes and social programs then it will on the extent to which economic policy encourages productive investment. Equity and efficiency can work together but they will require a different economic strategy from the one currently pursued.

i) The Future of Social Policy

The issues at stake in our concern for the integrity of social policy are necessarily linked to the orientation and success of economic policy. Full employment is essential to the social well-being of Canadians. A high unemployment society is intolerable for social and economic reasons. It creates untold social problems and undermines our ability to achieve, with social policy, desireable life enhancing objectives. A high unemployment society relegates the function of social policy to the provision of a debilitating form of welfarism while increasingly undermining political support for adequate levels of spending.

The effects of industrial restructuring, technological change, and capital mobility requires that we increasingly look to mechanisms other than the market to distribute income. The potential for greater inequalities and increased social tension is real. It would be callous to claim that we cannot afford social equity while there are mechanisms to reconcile it with productive investment.

While economic efficiency is of critical importance to us, economic growth is a separate issue. Economic growth in the past has not always been consistent with improvements in the quality of life. The benefits of economic efficiency can include the ability to reduce our collective work time, a redistribution of existing work opportunities, a reduction in pollution, more education, training and other social benefits that we may chose to trade-off against increases in our Gross National Product. These will be the future focus of social policy. But making these choices will require mechanisms to increase participation in decision-making at all levels of society, and it will require relying less on the market and more on democratic institutions in Canadian society.

V GOVERNMENT INSTITUTIONS:

a) Principles for the Future

Our analysis of the social and economic problems that we face in Canada suggest to us that both past practices of demand management within a Keynesian framework and current practices of restraint within a monetarist/supply side framework will not work to achieve desireable social conditions or economic recovery. A new framework is required. This new framework will see institutions of government playing substantially different roles in the development and administration of social and economic policies.

The central principle of a new framework is that more people have a greater say in the management of their lives. Greater democracy is the means by which the contradictions of the current framework can be resolved. Greater democracy in all institutions of Canadian society is the method by which the zero-sum options of the neo-classical paradigm become opportunities to achieve growth and efficiency with equity and justice.

The second principle of importance is the commitment to greater equality in Canadian society. Greater equality is desireable on grounds of social justice alone, but it is our belief that many of the existing inequalities that now exist represent economic waste and are at the root of many of our inefficiencies in production. The social costs of maintaining a society where more than 10 per cent of the labour force is continuously without a job and where one sixth of the population lives in poverty is a drain on our productive potential. More equality engenders more security and more security provides the foundation for cooperation and flexibility.

A third principle to guide us into the future is the notion that we should be efficient in our economic and our government institutions. There is a pressing need to improve efficiency and productivity in our economy. This will require considerable new investment in technology as well as industrial restructuring to take advantage of new product opportunities. Current notions of efficiency do not have to account for large externalities or social costs of production such as unemployment, community dislocation and pollution. We also need to be efficient so that people do not labour unecessarily in unproductive or menial work.

The fourth principle for the future is the commitment to social solidarity. Social solidarity means that as a society we operate on the idea of mutual support and cooperation. Adherence to the principle of social solidarity means that we reject the idea that the individual should have to rely on the market, or on his/her private or family resources for the achievement of happiness and well-being. A commitment to social solidarity ensures that social policies are high quality and universally accessible; that labour market policies seek to achieve full employment; and that economic policies respect community and worker integrity and interests.

b) Bureaucracy vs Democracy

Less reliance on the market for economic and social decision making immediately raises the spectre of increased bureaucracy and increased government in the lives of all Canadians. Most Canadians would reject this option, and for good reason. But we believe that much of the opposition to a greater role for government in the expansion of social policy or in economic decision-making

stems from the often correct perception that government is bureaucratic, insensitive and unresponsive to individual and popular concerns, and inefficient and wasteful in its operation. But the objections to an expansion of public sector responsibility are not inherent to collective provision or democratic decision-making. Much of the private sector operates in the same bureaucratic, insensitive and wasteful manner. It is precisely because institutions of government have become centralized and have insulated themselves from the community that opposition to "government" has increased.

The alternative is not to reduce public provision and reinforce private decision-making. The solution is to pursue democratic decentralization in all aspects of policy making and service delivery. The state can play a greater role in the lives of Canadians and this will be welcomed if the people who are most affected by government decision-making have effective control or influence over that decision making.

The role of Parliament has declined in importance as executive and bureaucratic elites have assumed more centralized power. This trend needs to be reversed with Parliament, our elected officials, playing an enhanced role in policy decision-making. But the democratization of policy decision-making should not stop at Parliament Hill, provincial legislatures, and municipal councils. Democracy needs to be pursued in every institution of society, in government, in the community, and perhaps most importantly, in the workplace.

c) The Role of Government in Social Policy

It should be clear that our support for an expansion of social policy initiatives does not constitute support for "welfarism", where large numbers of people remain marginal to the economy and society. We support the idea that government has to play a central role in guaranteeing that the principles we have outlined are met. This means that full employment should be the central social policy commitment of governments at all levels.

Within the current framework social policy often works at cross purposes with economic policy. Governments have thrown money at social problems and they have been ineffective because they have not got at the root of the problem. As Leonard Marsh outlined forty years ago, the first line of defence against social need is full employment. We believe this principle is still valid in the 1980's. The erosion of income security since 1975 proves it so.

Efforts to redistribute income are undermined to the extent that high unemployment exists. If the objective of social policy is to achieve a greater degree of income and wealth equality then this objective will be much more easily achieved if massive levels of income supports were not required for a large unemployment and welfare caseload. Increasingly social policy will have to focus on primary mechanisms of distribution such as the wage system and employment and economic decision-making.

As we have argued, support for public provision will be enhanced to the extent that services are universal, high quality, and of clear benefit to the majority of the population. The Canadian health care system is a good example of social service that most Canadians avidly support. It can be contrasted to the public

medicare system in the U.S. that provides poor quality care for a minority of U.S. citizens at the bottom of the income ladder. It is stigmatizing and has little public support. Yet the U.S. health care system as a whole costs more per capita than the Canadian system. Burgeoning costs plague the Canadian system as well and this had led to considerable conflict between the federal and provincial governments on the sharing of these costs. The solution to this dilemma is not to reprivatize, or allow for extra billing or user fee disincentives, the problem rests in the structure of the medical care system in Canada. The system is based on a centralized, hospital/capital/doctor intensive remedial care model of health care. The alternative is a decentralized, preventive, clinic based system under more democratic forms of local control.

This raises the question of the appropriate role for the federal government in the funding of social policy. Some part of the current stress between the two senior levels of government in the social policy field results from the federal level simultaneously asserting its perogatives with respect to policy principles (such as extra-billing for health care) and reducing its fiscal commitments. Federal transfers to the provinces declined from nearly 48 per cent of provincial costs for the five major provincial social programs in 1975 to 41 per cent in 1981. We think that such conflicting policy initiatives could not help but create stress.

Executive federalism, the meeting together of the executives of the two levels of government, has resulted in the virtual suspension of the democratic legislative process. Legislation is in effect formulated by executives rather than by Parliament and legislatures. Too much importance is placed on fiscal responsibilities and arrangements. Where legislators from all political parties are responsible for developing policy, much more attention has been devoted to the quality of the resulting programs and their effects on the people affected by them.

Notwithstanding these problems, the present system which involves frequent consultation and mutually agreed upon solutions between the federal and provincial governments is desireable. It recognizes the inextricable links between social and economic development and between economic prosperity and the provision of adequate income security and human services. Neither level can act unilaterally in many policy areas despite the fact that each has been assigned exclusive responsibilities.

It is our belief that there continues to be a need for a strong federal presence in the social policy field in order to guarantee adequate national standards. But this requirement is not inconsistent with the idea that social policy development and administration could benefit by decentralization and democratization -- where flexibility and participation could replace bureaucracy and executive isolation.

d) The Role of Governments in Economic Policy

The role of government in achieving adequate levels of production and employment will require that it recognize the continued importance of national demand management. But public policy must also focus on supply-side factors. However, the

current supply-side facination with the private sector ignores the evidence of waste and ineffectiveness in a private sector led to recovery. Increasing private profit levels and increased savings do not necessarily translate into effective and rational economic decision-making.

The role of government in economic decision-making must be much more instrumental in the achievements of socially desireable and democratically determined investment and production goals. Private profitability should not be the sole criteria for measuring contribution to social need. Our experience is that many private profit motivated decisions are socially wasteful, irrational, and unjust. The alternative is not a system where the state owns and controls investments for the same motives. The alternative is a system where community based initiatives and entrepreneurship form the basis of a rational economic policy for full employment. Planning to meet human/social needs becomes the function of economic policy. The role of government is to create a framework whereby national goals of production can be formulated and inducements and assistance to meet these goals can be developed.

We have argued that what is required to achieve economic efficiency and growth is not necessarily profitability but rather the ability to save some of what we produce and the use of those savings in the form of investment to produce more for the future. Public investment is one alternative to private profit-induced investment but there are other mechanisms within the private sector. An example would be the use of social insurance and private and public pension fund savings by elected investment boards representing labour, business and the community.

e) The Role of Workers and Communities in the Economy

There is considerable evidence that workers that have a greater say in their work environment are more committed and more productive. It is our belief that the management would become more socially rational as well as more efficient if productive enterprises were less hierarchical and had greater worker participation in all aspects of decision-making.

The management of investment decision-making at the local level could be enhanced if municipal governments had the power to undertake municipal enterprises and could establish mechanisims for democratic investment decision-making. Senior levels of government could facilitate democratic and decentralized economic decision-making by providing assistance to communities and workers interested in undertaking ownership of a productive enterprise by way of a buyout of an existing facility or as a new initiative.

f) Conclusion

This section has outlined our perception of the new roles for government in Canada's future that followed from our analysis of the problems and prospects for Canada's economic future. It is not meant as a blueprint for the future, but it is meant to suggest the need for a substantially different framework for economic policy making if we are at all interested in the goals of full employment, economic recovery, and social development. More specific policy solutions to many of these problems have been developed in many of our other publications at the Social Planning Council of Metropolitan Toronto. We hope to have the opportunity to elaborate

more completely our vision of a new framework for the future at the second round of hearings of the Royal Commission in 1984.